

City of Steubenville
Jefferson County, Ohio

Audited Financial Statements

December 31, 2004



**Auditor of State
Betty Montgomery**

City Council
City of Steubenville
302 Market Street
Steubenville, Ohio 43952

We have reviewed the *Independent Auditor's Report* of the City of Steubenville, Jefferson County, prepared by Rea & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Steubenville is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 24, 2006

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2004

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**CITY OF STEUBENVILLE
JEFFERSONAP COUNTY**

DECEMBER 31, 2004

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April 30, 2006

Mayor and Members of Council
City of Steubenville
Steubenville, OH 43952

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steubenville (the "City"), Jefferson County, Ohio, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Insurance claims reported in the City Health Care Fund (an internal service fund) are processed by a service organization that is independent of the City. The service organization did not provide us with information we requested regarding the design or proper operation of its internal control relative to the processing of the City's health insurance claims transaction. We were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 100 percent of expenses and 100 percent of accrued liabilities for the Internal Service Fund Type.

In our opinion, except for the effect of such adjustments, if any as might have been determined to be necessary had we been able to examine information regarding health insurance claims, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Steubenville, Jefferson County, Ohio, as of December 31, 2004, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 30, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The management's discussion and analysis of the City of Steubenville's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Ø The total net assets of the City increased \$748,129. Net assets of governmental activities decreased \$473,649 and net assets of business-type activities increased \$1,221,778.
- Ø General revenues accounted for \$11,988,104, or 78.46% of total governmental activities revenue. Program specific revenues accounted for \$3,290,622, or 21.54% of total governmental activities revenue of \$15,278,726.
- Ø The City had \$15,752,375 in expenses related to governmental activities; \$3,290,622 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$12,461,753 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$11,988,104.
- Ø The general fund had revenues and other financing sources of \$11,856,510 in 2004. This represents a decrease of \$721,400 from 2003 revenues. The expenditures of the general fund, which totaled \$12,930,240 in 2004, decreased \$700,343 from 2003. The net decrease in fund balance for the general fund was \$1,073,730 or 72.23%.
- Ø The debt service fund had revenues of \$260,313 in 2004, which is an increase of \$18,792 from 2003 revenues. The expenditures in the debt service fund totaled \$5,254 in 2004, which increased \$5,254 from 2003. The net increase in fund balance was \$255,059, resulting in an ending fund balance of \$1,931,570.
- Ø Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, increased in 2004 by \$1,221,778. This increase is primarily due to operating income of \$1,767,079, this is the amount that operating revenues exceeded operating expenses.
- Ø In the general fund, the actual revenues came in \$1,261,785 below the final budgeted revenues and actual expenditures were \$45,756 less than the amount in the final budget. The revenue variances are the result of decreasing income tax and property tax revenues. Budgeted revenues were increased during the year by \$48,546. Budgeted expenditures increased \$1,040,841 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

The Basic Financial Statements

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, and refuse operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and debt service fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20 - 24 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and solid waste management functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 25 - 28 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary funds are agency funds. The basic fiduciary fund financial statement can be found on page 29 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 30 - 59 of this report.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2004 and 2003. Certain 2003 amounts have been restated, which is described in Note 3.A. in the notes to the basic financial statements.

	Net Assets					
	Governmental Activities	Business-type Activities	Restated	Restated	2004 Total	Restated
			Governmental Activities	Business-type Activities		2003 Total
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2004 Total</u>	<u>2003 Total</u>
<u>Assets</u>						
Current and other assets	\$ 13,570,921	\$ 3,218,371	\$ 15,655,728	\$ 2,821,738	\$ 16,789,292	\$ 18,477,466
Capital assets, net	<u>12,287,108</u>	<u>19,752,719</u>	<u>10,785,216</u>	<u>17,339,096</u>	<u>32,039,827</u>	<u>28,124,312</u>
Total assets	<u>25,858,029</u>	<u>22,971,090</u>	<u>26,440,944</u>	<u>20,160,834</u>	<u>48,829,119</u>	<u>46,601,778</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,011,052	21,876,974	4,960,333	21,375,851	26,888,026	26,336,184
Other liabilities	<u>3,493,879</u>	<u>1,766,129</u>	<u>3,653,864</u>	<u>678,774</u>	<u>5,260,008</u>	<u>4,332,638</u>
Total liabilities	<u>8,504,931</u>	<u>23,643,103</u>	<u>8,614,197</u>	<u>22,054,625</u>	<u>32,148,034</u>	<u>30,668,822</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	10,420,271	2,868,127	9,114,765	1,726,901	13,288,398	10,841,666
Restricted	6,970,678	0	5,549,520	672,331	6,970,678	6,221,851
Unrestricted	<u>(37,851)</u>	<u>(3,540,140)</u>	<u>3,162,462</u>	<u>(4,293,023)</u>	<u>(3,577,991)</u>	<u>(1,130,561)</u>
Total net assets	<u>\$ 17,353,098</u>	<u>\$ (672,013)</u>	<u>\$ 17,826,747</u>	<u>\$ (1,893,791)</u>	<u>\$ 16,681,085</u>	<u>\$ 15,932,956</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$16,681,085. At year-end, net assets were \$17,353,098 and (\$672,013) for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 65.62% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction-in-progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$10,420,271 and \$2,868,127 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2004, the City is able to report positive balances in two categories of net assets, for the governmental activities.

A portion of the City's net assets, \$6,970,678, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets is a deficit of \$37,851.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The table below shows the changes in net assets for fiscal year 2004 and 2003. Certain 2003 amounts have been restated which is described in Note 3.A. in the notes to the basic financial statement.

			Change in Net Assets		2004 Total	Restated 2003 Total
	Governmental	Business-type	Restated	Restated		
	Activities 2004	Activities 2004	Governmental Activities 2003	Business-type Activities 2003		
Revenues						
Program revenues:						
Charges for services	\$ 949,617	\$ 9,156,176	\$ 180,366	\$ 8,923,577	\$ 10,105,793	\$ 9,103,943
Operating grants and contributions	2,341,005	1,884	2,439,153	236,654	2,342,889	2,675,807
Capital grants and contributions	0	82,933	2,160,102	0	82,933	2,160,102
Total program revenues	<u>3,290,622</u>	<u>9,240,993</u>	<u>4,779,621</u>	<u>9,160,231</u>	<u>12,531,615</u>	<u>13,939,852</u>
General revenues:						
Property taxes	1,492,960	0	2,079,876	0	1,492,960	2,079,876
Income taxes	7,891,687	0	8,971,378	0	7,891,687	8,971,378
Hotel taxes	81,902	0	2,298,894	0	81,902	2,298,894
Special assessments	0	0	0	0	0	0
Unrestricted grants and entitlements	2,237,786	0	2,036,530	0	2,237,786	2,036,530
Investment earnings	67,950	18,112	80,441	15,384	86,062	95,825
Refunds and reimbursements	0	0	709,214	337,448	0	1,046,662
Miscellaneous	215,819	4,700	31,187	1,610	220,519	32,797
Total general revenues	<u>11,988,104</u>	<u>22,812</u>	<u>16,207,520</u>	<u>354,442</u>	<u>12,010,916</u>	<u>16,561,962</u>
Total revenues	<u>15,278,726</u>	<u>9,263,805</u>	<u>20,987,141</u>	<u>9,514,673</u>	<u>24,542,531</u>	<u>30,501,814</u>
Expenses:						
General government	2,921,646	0	4,385,406	0	2,921,646	4,385,406
Security of persons and property	7,219,148	0	6,913,724	0	7,219,148	6,913,724
Public health and welfare	551,723	0	502,319	0	551,723	502,319
Transportation	2,578,988	0	2,115,508	0	2,578,988	2,115,508
Community environment	1,204,524	0	1,723,963	0	1,204,524	1,723,963
Leisure time activity	1,136,809	0	1,282,954	0	1,136,809	1,282,954
Other	375	0	0	0	375	0
Interest and fiscal charges	139,162	0	59,187	0	139,162	59,187
Water	0	3,774,894	0	2,993,631	3,774,894	2,993,631
Sewer	0	2,706,380	0	2,488,100	2,706,380	2,488,100
Electric	0	1,560,753	0	1,478,105	1,560,753	1,478,105
Total expenses	<u>15,752,375</u>	<u>8,042,027</u>	<u>16,983,061</u>	<u>6,959,836</u>	<u>23,794,402</u>	<u>23,942,897</u>
Increase (decrease) in net assets	(473,649)	1,221,778	4,004,080	2,554,837	748,129	6,558,917
Net assets at beginning of year (restated)	<u>17,826,747</u>	<u>(1,893,791)</u>	<u>13,822,667</u>	<u>(4,448,628)</u>	<u>15,932,956</u>	<u>9,374,039</u>
Net assets at end of year	<u>\$ 17,353,098</u>	<u>\$ (672,013)</u>	<u>\$ 17,826,747</u>	<u>\$ (1,893,791)</u>	<u>\$ 16,681,085</u>	<u>\$ 15,932,956</u>

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)

Governmental Activities

Governmental activities net assets decreased \$473,649 in 2004. The decrease is a result of decreasing expenses still exceeding decreased revenues versus amounts reported in the prior year.

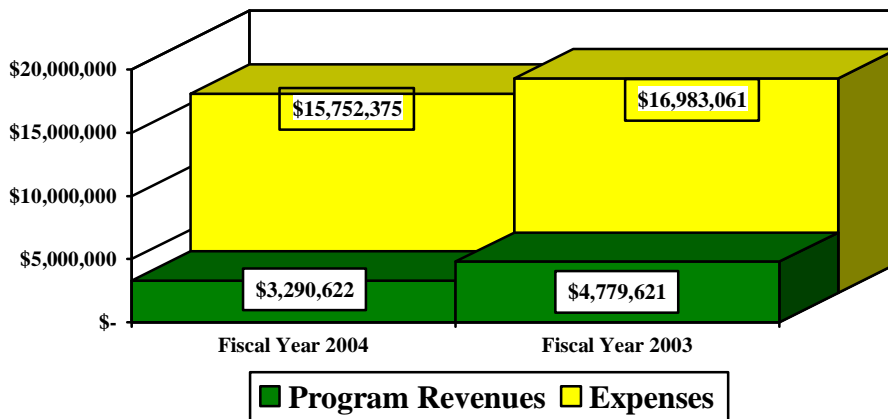
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$7,219,148 which accounted for 45.83% of the total expenses of the City. These expenses were partially funded by \$1,356 in operating grants and contributions. General government expenses totaled \$2,921,646 which was partially funded by \$570,338 in direct charges to users of the services and \$8,600 in operating grants and contributions.

The state and federal government contributed to the City a total of \$2,341,005 in operating grants and contributions.

General revenues totaled \$11,988,104, and amounted to 78.46% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,384,647. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$2,237,786.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities – Program Revenues vs. Total Expenses



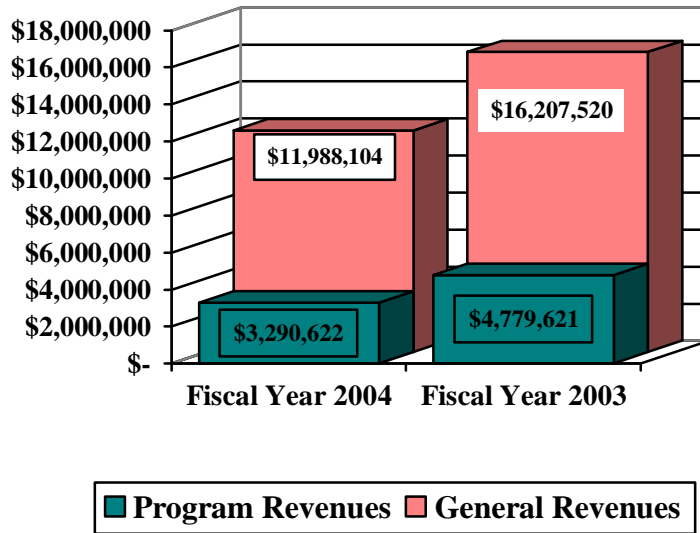
CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

	Governmental Activities			
	Total Cost of	Net Cost of	Restated	Restated
	Services	Services	Total Cost of	Net Cost of
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
Program Expenses:				
General government	\$ 2,921,646	\$ 2,342,708	\$ 4,385,406	\$ 4,289,626
Security of persons and property	7,219,148	7,217,792	6,913,724	6,881,151
Public health and welfare	551,723	425,366	502,319	475,264
Transportation	2,578,988	1,361,850	2,115,508	1,859,445
Community environment	1,204,524	119,846	1,723,963	(2,325,542)
Leisure time activity	1,136,809	854,654	1,282,954	964,309
Other	375	375	0	0
Interest and fiscal charges	<u>139,162</u>	<u>139,162</u>	<u>59,187</u>	<u>59,187</u>
Total	<u>\$ 15,752,375</u>	<u>\$ 12,461,753</u>	<u>\$ 16,983,061</u>	<u>\$ 12,203,440</u>

The dependence upon general revenues for governmental activities is apparent, with 79.11% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues

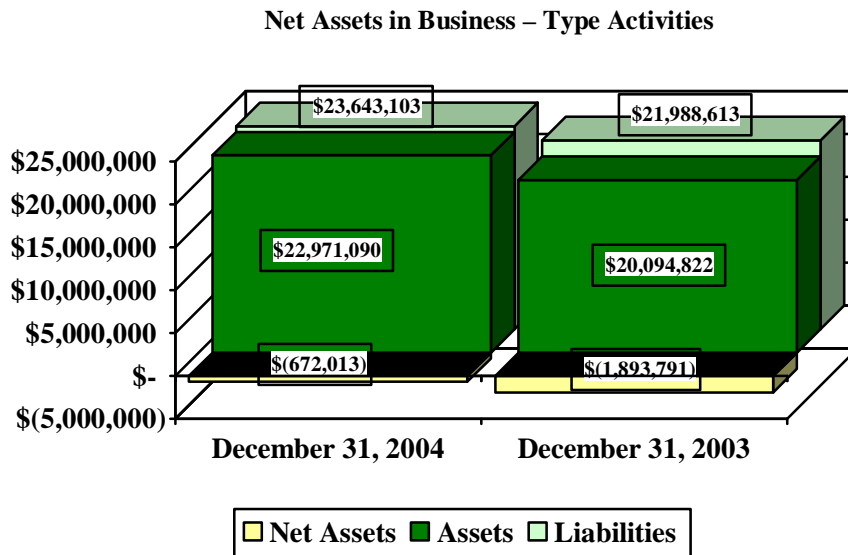


CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$9,240,993 general revenues of \$22,812, and expenses of \$8,042,027 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$5,621,919 which is \$1,442,198 less than the previous year's restated fund balance of \$7,064,117. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

	<u>Fund Balances</u> <u>12/31/04</u>	<u>Restated</u> <u>Fund Balances</u> <u>12/31/03</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 412,850	\$ 1,486,580	\$ (1,073,730)
Debt Service	1,931,570	1,676,511	255,059
Other nonmajor governmental funds	<u>3,277,499</u>	<u>3,901,026</u>	<u>(623,527)</u>
Total	<u>\$ 5,621,919</u>	<u>\$ 7,064,117</u>	<u>\$ (1,442,198)</u>

General Fund

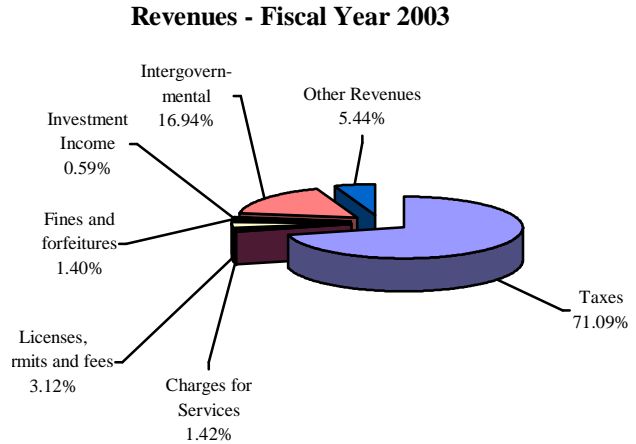
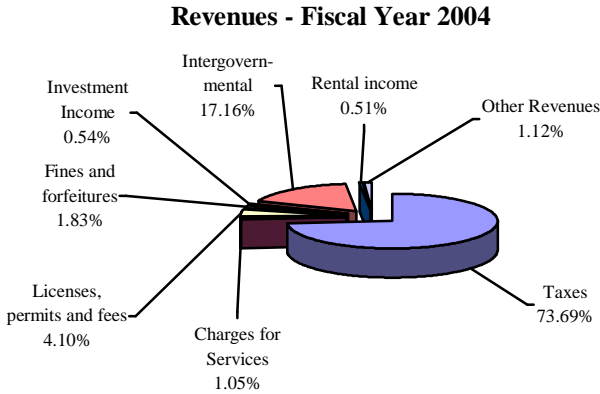
The City's general fund balance decreased \$1,073,730, primarily due to reductions in tax revenues. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>Restated</u> <u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,349,581	\$ 8,941,387	(6.62) %
Charges for services	119,453	178,600	(33.12) %
Licenses, permits and fees	463,173	392,481	18.01 %
Fines and forfeitures	207,124	175,511	18.01 %
Intergovernmental	1,944,454	2,130,953	(8.75) %
Investment income	61,437	73,825	(16.78) %
Rental income	57,726	0	100.00 %
Other	<u>127,171</u>	<u>685,153</u>	(81.44) %
Total	<u>\$ 11,330,119</u>	<u>\$ 12,577,910</u>	(9.92) %

Tax revenue represents 73.69% of all general fund revenue. The City's income tax collections decreased during 2004, which is the primary reason for the overall decrease in revenues. Other revenue in 2003 included refunds and reimbursements which have been eliminated in 2004.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**



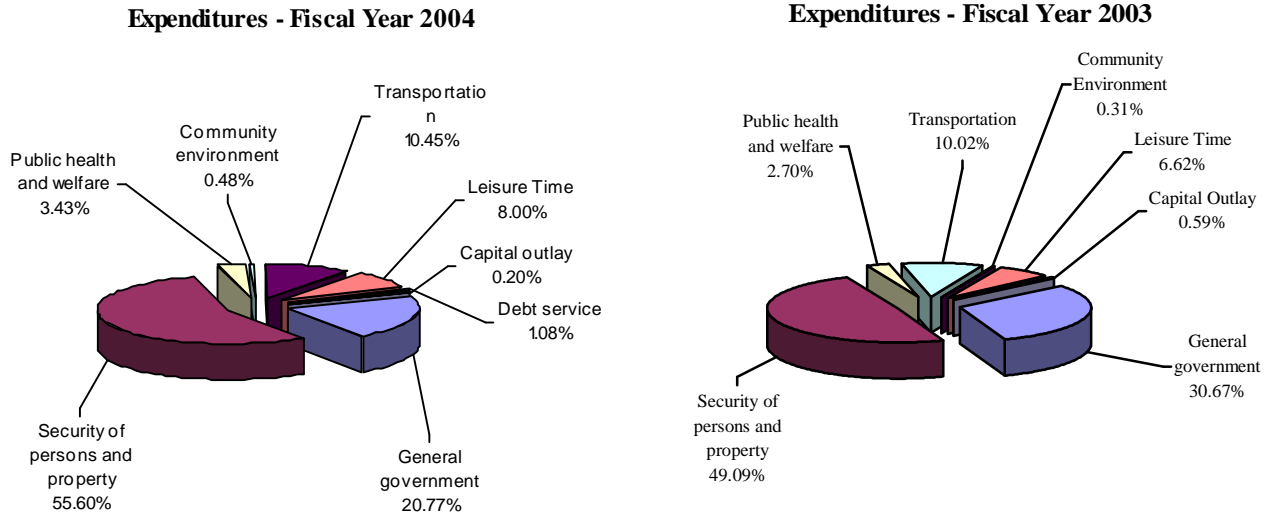
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> <u>Amount</u>	<u>Restated</u> <u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,685,117	\$ 4,153,044	(35.35) %
Security of persons and property	7,188,972	6,647,516	8.15 %
Public health and welfare	442,872	366,263	20.92 %
Transportation	1,351,835	1,356,806	(0.37) %
Community environment	61,428	42,588	44.24 %
Leisure time activity	1,034,328	896,194	15.41 %
Capital outlay	26,401	79,319	(66.72) %
Debt service			
Principal retirement	42,644	0	100.00 %
Interest and fiscal charges	96,643	0	100.00 %
Total	<u>\$ 12,930,240</u>	<u>\$ 13,541,730</u>	<u>(4.52) %</u>

The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to a correction made during 2004 to properly allocate employee benefit expenditures, which caused a significant decrease in general government expenditures. The increase in debt service payments is due to acquiring a new lease during 2004. The overall decrease is due in part to the elimination of reimbursement of general fund expenditures from other funds, previously recorded as revenue which was recorded as a reduction of expenditures during 2004.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)



Debt Service Fund

The increase in the fund balance of the debt service fund of \$255,059 was due to tax revenues exceeding expenditures.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund only. In the general fund, one of the most significant changes was between the original and final budgeted amounts in the area of appropriations, which increased \$1,040,841 from \$13,501,062 to \$14,541,903. Actual revenues and other financing sources of \$12,323,151 were lower than final budgeted revenues and other financing sources by \$1,261,785. Actual expenditures and other financing uses came in \$48,756 less than the final budgeted amounts.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements, as well as internal balances between the governmental and business-type funds due to the allocation of the internal service fund (reported as internal balances) which are not reported on the proprietary statements.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

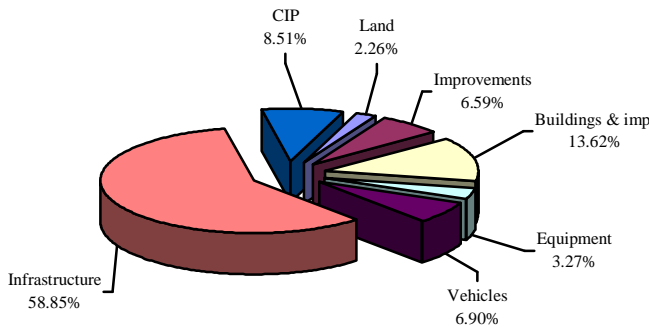
At the end of fiscal 2004, the City had \$32,039,827 (net of accumulated depreciation) invested in land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$12,287,108 was reported in governmental activities and \$19,752,719 was reported in business-type activities. Certain 2003 amounts have been restated due to prior period adjustments notes in Note 3.A. in the notes to the financial statements. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at December 31
(Net of Depreciation)**

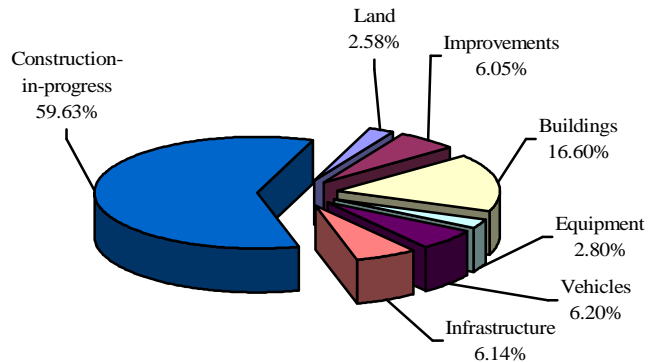
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
		Restated		Restated		Restated
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 278,013	\$ 278,013	\$ 36,000	\$ 36,000	\$ 314,013	\$ 314,013
Construction-in-progress	1,045,398	6,431,528	5,123,524	15,733,062	6,168,922	22,164,590
Buildings	1,673,725	1,790,548	980,705	947,445	2,654,430	2,737,993
Improvements	809,302	652,761	21,799	0	831,101	652,761
Equipment	401,878	302,515	175,481	168,759	577,359	471,274
Vehicles	847,982	668,639	411,938	453,830	1,259,920	1,122,469
Infrastructure	<u>7,230,810</u>	<u>661,212</u>	<u>13,003,272</u>	<u>0</u>	<u>20,234,082</u>	<u>661,212</u>
Totals	<u>\$12,287,108</u>	<u>\$ 10,785,216</u>	<u>\$ 19,752,719</u>	<u>\$17,339,096</u>	<u>\$32,039,827</u>	<u>\$ 28,124,312</u>

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



Capital Assets - Governmental Activities 2003

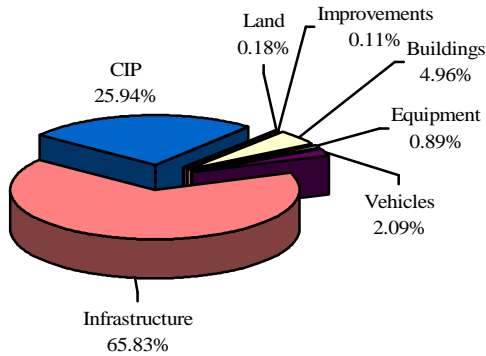


CITY OF STEUBENVILLE, OHIO

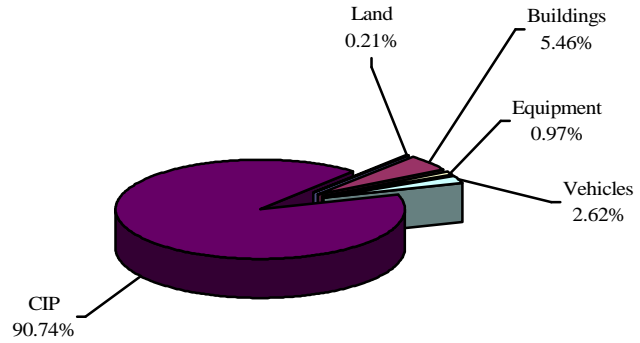
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)**

The City's largest capital asset category is infrastructure which includes roads constructed in 2003 and 2004, since the City is phasing-in the retroactive reporting of infrastructure. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 65.83% of the City's total business-type capital assets.

Debt Administration

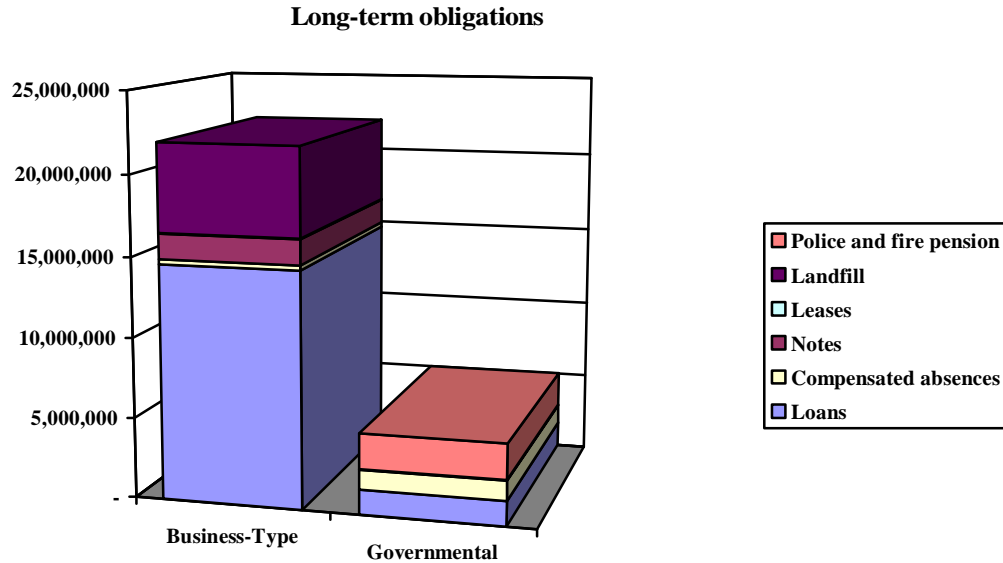
The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Loans payable	\$ 1,568,226	\$ 1,670,451
Compensated absences	1,233,531	1,067,809
Capital lease obligation payable	21,878	0
Police and Fire Pension liability	<u>2,187,417</u>	<u>2,222,073</u>
Total long-term obligations	<u>\$ 5,011,052</u>	<u>\$ 4,960,333</u>
	Business-type Activities	
	<u>2004</u>	<u>2003</u>
Long-term notes payable	\$ 1,557,414	\$ 1,576,881
Capital lease obligation payable	38,439	46,973
OWDA Loans	14,004,785	13,414,863
OPWC Loans	631,040	573,478
Landfill Closure/Postclosure	5,347,032	5,485,242
Compensated absences	<u>298,264</u>	<u>278,414</u>
Total long-term obligations	<u>\$ 21,876,974</u>	<u>\$ 21,375,851</u>

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)

A comparison of the long-term obligations by category is depicted in the chart below.



Economic Conditions and Outlook

The City's elected and appointed officials considered many factors when setting the fiscal year 2004 budget. With the announced layoff of significant numbers in the local steel industry, the City considered the impact on two primary revenues sources: income tax revenue and state shared revenue. City Council decided that it was important to: 1) continue the City's investment in job creation; 2) put the highest premium on safety for the people of the City and City employees; and 3) adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2004 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mr. Michael Marshall, Finance Director, City of Steubenville, 304 Market Street, Steubenville, Ohio 43952.

CITY OF STEUBENVILLE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,496,219	\$ 3,784,319	\$ 8,280,538
Receivables (net of allowances for uncollectibles):			
Income taxes	2,032,059	0	2,032,059
Real and other taxes	1,731,075	0	1,731,075
Accounts	0	1,631,458	1,631,458
Special assessments	18,506	0	18,506
Internal balances	2,206,475	(2,206,475)	0
Due from other governments	3,015,041	0	3,015,041
Prepayments	11,633	9,069	20,702
Materials and supplies inventory.	59,913	0	59,913
Capital assets:			
Land and construction-in-progress	1,323,411	5,159,524	6,482,935
Depreciable capital assets, net	10,963,697	14,593,195	25,556,892
Total capital assets, net	12,287,108	19,752,719	32,039,827
 Total assets.	 25,858,029	 22,971,090	 48,829,119
Liabilities:			
Accounts payable.	302,916	116,273	419,189
Contracts payable.	151,918	915,783	1,067,701
Retainage payable	0	229,990	229,990
Accrued wages and benefits	288,081	76,154	364,235
Due to other governments	760,998	226,582	987,580
Deferred revenue.	1,351,163	0	1,351,163
Accrued interest payable.	12,553	7,604	20,157
Accrued vacation payable.	460,078	193,743	653,821
Claims payable.	166,172	0	166,172
Long-term liabilities:			
Due within one year	292,297	3,000,207	3,292,504
Due in more than one year	4,718,755	18,876,767	23,595,522
 Total liabilities	 8,504,931	 23,643,103	 32,148,034
Net assets:			
Invested in capital assets, net of related debt	10,697,004	3,521,041	14,218,045
Restricted for:			
Capital projects.	59,433	0	59,433
Debt service	1,990,719	0	1,990,719
Street construction, maintenance and repairs.	813,741	0	813,741
Police and fire	18,771	0	18,771
Court computer.	55,966	0	55,966
Recreation	228,884	0	228,884
Community development.	1,626,304	0	1,626,304
Health programs	202,038	0	202,038
Safety programs	1,453,509	0	1,453,509
Other purposes	459,717	0	459,717
Unrestricted (deficit)	(252,988)	(4,193,054)	(4,446,042)
 Total net assets	 <u>\$ 17,353,098</u>	 <u>\$ (672,013)</u>	 <u>\$ 16,681,085</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 2,921,646	\$ 570,338	\$ 8,600	\$ 0
Security of persons and property.	7,219,148	0	1,356	0
Public health and welfare	551,723	112,663	13,694	0
Transportation	2,578,988	15,344	1,201,794	0
Community environment.	1,204,524	113,147	971,531	0
Leisure time activity.	1,136,809	138,125	144,030	0
Other	375	0	0	0
Interest and fiscal charges.	139,162	0	0	0
Total governmental activities	<u>15,752,375</u>	<u>949,617</u>	<u>2,341,005</u>	<u>0</u>
Business-type Activities:				
Water	3,774,894	5,272,318	1,884	0
Sewer	2,706,380	2,659,158	0	82,933
Refuse.	1,560,753	1,224,700	0	0
Total business-type activities	<u>8,042,027</u>	<u>9,156,176</u>	<u>1,884</u>	<u>82,933</u>
Total primary government.	<u>\$ 23,794,402</u>	<u>\$ 10,105,793</u>	<u>\$ 2,342,889</u>	<u>\$ 82,933</u>

General Revenues:

Property taxes levied for:

 General purposes.

 Debt service

Income tax levied for:

 General purposes.

 Street fund

Other taxes:

 Hotel occupancy taxes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues.

Change in net assets.

Net assets at beginning of year (restated)

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,342,708)	\$ 0	\$ (2,342,708)
(7,217,792)	0	(7,217,792)
(425,366)	0	(425,366)
(1,361,850)	0	(1,361,850)
(119,846)	0	(119,846)
(854,654)	0	(854,654)
(375)	0	(375)
(139,162)	0	(139,162)
<u>(12,461,753)</u>	<u>0</u>	<u>(12,461,753)</u>
0	1,499,308	1,499,308
0	35,711	35,711
0	(336,053)	(336,053)
<u>0</u>	<u>1,198,966</u>	<u>1,198,966</u>
<u>(12,461,753)</u>	<u>1,198,966</u>	<u>(11,262,787)</u>
1,285,355	0	1,285,355
207,605	0	207,605
6,808,783	0	6,808,783
1,082,904	0	1,082,904
81,902	0	81,902
2,237,786	0	2,237,786
67,950	18,112	86,062
215,819	4,700	220,519
<u>11,988,104</u>	<u>22,812</u>	<u>12,010,916</u>
(473,649)	1,221,778	748,129
<u>17,826,747</u>	<u>(1,893,791)</u>	<u>15,932,956</u>
<u>\$ 17,353,098</u>	<u>\$ (672,013)</u>	<u>\$ 16,681,085</u>

CITY OF STEUBENVILLE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 0	\$ 1,931,570	\$ 2,227,631	\$ 4,159,201
Receivables (net of allowance for uncollectibles):				
Income taxes	1,986,338	0	45,721	2,032,059
Property taxes	1,462,482	268,593	0	1,731,075
Special assessments.	0	0	18,506	18,506
Due from other funds	897,869	0	1,341,720	2,239,589
Due from other governments	919,992	12,818	2,082,231	3,015,041
Prepayments.	10,466	0	1,167	11,633
Materials and supplies inventory	45,000	0	14,913	59,913
Total assets	<u>\$ 5,322,147</u>	<u>\$ 2,212,981</u>	<u>\$ 5,731,889</u>	<u>\$ 13,267,017</u>
Liabilities:				
Accounts payable	\$ 128,281	\$ 0	\$ 174,635	\$ 302,916
Contracts payable	0	0	151,918	151,918
Accrued wages and benefits.	252,124	0	35,957	288,081
Due to other governments.	686,348	0	74,650	760,998
Deferred revenue	3,842,544	281,411	2,017,230	6,141,185
Total liabilities	<u>4,909,297</u>	<u>281,411</u>	<u>2,454,390</u>	<u>7,645,098</u>
Fund Balances:				
Reserved for encumbrances.	871,326	0	209,767	1,081,093
Reserved for prepayments	10,466	0	1,167	11,633
Reserved for materials and supplies inventory	45,000	0	14,913	59,913
Unreserved, undesignated (deficit), reported in:				
General fund.	(513,942)	0	0	(513,942)
Special revenue funds.	0	0	2,992,219	2,992,219
Debt service fund	0	1,931,570	0	1,931,570
Capital projects funds.	0	0	59,433	59,433
Total fund balances	<u>412,850</u>	<u>1,931,570</u>	<u>3,277,499</u>	<u>5,621,919</u>
Total liabilities and fund balances.	<u>\$ 5,322,147</u>	<u>\$ 2,212,981</u>	<u>\$ 5,731,889</u>	<u>\$ 13,267,017</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 5,621,919
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,287,108
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 1,745,314	
Property taxes	379,912	
Intergovernmental revenues	2,646,290	
Special assessments	18,506	
Total		4,790,022
Internal service funds are used by management to charge the costs of the government center, service center and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds, including internal balances of \$33,114, are:		137,732
In the statement of activities interest is accrued on outstanding loans and notes whereas in governmental funds, interest expenditures are reported when due.		(12,553)
In the statement of activities vacation is accrued for leave accrued whereas in governmental funds, vacation leave expenditures are reported when taken.		(460,078)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(1,233,531)	
Police and fire pension liability	(2,187,417)	
Loans payable	(1,568,226)	
Capital lease payable	(21,878)	
Total		(5,011,052)
 Net assets of governmental activities		 \$ 17,353,098

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 7,088,661	\$ 0	\$ 1,084,193	\$ 8,172,854
Property and other taxes	1,260,920	230,926	81,902	1,573,748
Charges for services	119,453	0	2,852	122,305
Licenses and permits	463,173	0	68,632	531,805
Fines and forfeitures	207,124	0	30,657	237,781
Intergovernmental	1,944,454	25,473	2,460,596	4,430,523
Special assessments	0	0	17,206	17,206
Investment income	61,437	3,914	1,951	67,302
Rental income	57,726	0	0	57,726
Other	127,171	0	70,142	197,313
Total revenues	<u>11,330,119</u>	<u>260,313</u>	<u>3,818,131</u>	<u>15,408,563</u>
Expenditures:				
Current:				
General government	2,685,117	5,254	357,506	3,047,877
Security of persons and property	7,188,972	0	14,267	7,203,239
Public health and welfare	442,872	0	115,587	558,459
Transportation	1,351,835	0	2,142,716	3,494,551
Community environment	61,428	0	1,123,034	1,184,462
Leisure time activity	1,034,328	0	244,581	1,278,909
Other	0	0	375	375
Capital outlay	26,401	0	284,145	310,546
Debt service:				
Principal retirement	42,644	0	281,760	324,404
Interest and fiscal charges	96,643	0	42,266	138,909
Total expenditures	<u>12,930,240</u>	<u>5,254</u>	<u>4,606,237</u>	<u>17,541,731</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,600,121)</u>	<u>255,059</u>	<u>(788,106)</u>	<u>(2,133,168)</u>
Other financing sources:				
Sale of capital assets	22,990	0	58,579	81,569
Issuance of notes	77,000	0	106,000	183,000
Transfers in	400,000	0	0	400,000
Capital lease transaction	26,401	0	0	26,401
Total other financing sources	<u>526,391</u>	<u>0</u>	<u>164,579</u>	<u>690,970</u>
Net change in fund balances	(1,073,730)	255,059	(623,527)	(1,442,198)
Fund balances at beginning of year (restated)	<u>1,486,580</u>	<u>1,676,511</u>	<u>3,901,026</u>	<u>7,064,117</u>
Fund balances at end of year	<u>\$ 412,850</u>	<u>\$ 1,931,570</u>	<u>\$ 3,277,499</u>	<u>\$ 5,621,919</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ (1,442,198)

Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital asset additions	\$ 2,203,905	
Current year depreciation	<u>(599,755)</u>	
Total		1,604,150

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (102,258)

Proceeds of loans and capital leases are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (209,401)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (130,485)

Repayment of loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 324,404

In the statement of activities, interest is accrued on outstanding loans and notes, whereas in governmental funds, an interest expenditure is reported when due. (253)

In the statement of activities, vacation leave is accrued when earned, whereas in governmental funds, an expenditure is reported when vacation leave is taken. (25,781)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (165,722)

Internal service funds are used by management to charge the costs of the health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balances of \$33,114, is allocated among the governmental activities. (326,105)

Change in net assets of governmental activities \$ (473,649)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 7,975,000	\$ 8,025,000	\$ 7,036,223	\$ (988,777)
Property and other taxes	1,220,656	1,256,083	1,260,920	4,837
Charges for services	217,500	185,481	177,179	(8,302)
Licenses and permits.	445,700	448,893	463,173	14,280
Fines and forfeitures.	176,000	198,628	207,124	8,496
Intergovernmental	2,222,544	1,885,850	1,812,248	(73,602)
Investment income	80,000	75,000	62,211	(12,789)
Other	699,000	1,010,011	804,083	(205,928)
Total revenues.	<u>13,036,400</u>	<u>13,084,946</u>	<u>11,823,161</u>	<u>(1,261,785)</u>
Expenditures:				
Current:				
General government	4,408,081	4,881,290	3,638,285	1,243,005
Security of persons and property	6,460,599	6,729,648	7,675,096	(945,448)
Public health and welfare.	404,318	470,115	481,364	(11,249)
Leisure time activity	912,716	1,022,284	1,087,715	(65,431)
Transportation	1,269,418	1,381,772	1,544,779	(163,007)
Community environment	45,930	51,694	64,600	(12,906)
Debt service:				
Principal retirement	0	4,500	3,465	1,035
Interest and fiscal charges	0	600	843	(243)
Total expenditures.	<u>13,501,062</u>	<u>14,541,903</u>	<u>14,496,147</u>	<u>45,756</u>
Deficiency of revenues under expenditures	<u>(464,662)</u>	<u>(1,456,957)</u>	<u>(2,672,986)</u>	<u>(1,216,029)</u>
Other financing sources:				
Sale of capital assets.	10,000	22,990	22,990	0
Issuance of notes	0	77,000	77,000	0
Transfers in	400,000	400,000	400,000	0
Other financing sources	33,000	0	0	0
Total other financing sources.	<u>443,000</u>	<u>499,990</u>	<u>499,990</u>	<u>0</u>
Net change in fund balance	(21,662)	(956,967)	(2,172,996)	(1,216,029)
Fund balance at beginning of year	17,432	17,432	17,432	0
Prior year encumbrances appropriated	<u>2,161,705</u>	<u>2,161,705</u>	<u>2,161,705</u>	<u>0</u>
Fund balance at end of year.	<u>\$ 2,157,475</u>	<u>\$ 1,222,170</u>	<u>\$ 6,141</u>	<u>\$ (1,216,029)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities -Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 3,185,937	\$ 0	\$ 598,382	\$ 3,784,319	\$ 337,018
Receivables (net of allowance for uncollectibles):					
Accounts	1,318,256	209,408	103,794	1,631,458	0
Due from other governments	0	0	0	0	0
Prepayments	3,023	3,023	3,023	9,069	0
Total current assets	<u>4,507,216</u>	<u>212,431</u>	<u>705,199</u>	<u>5,424,846</u>	<u>337,018</u>
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	3,992,487	1,167,037	0	5,159,524	0
Depreciable capital assets, net	12,228,050	2,077,208	287,937	14,593,195	0
Total capital assets, net	<u>16,220,537</u>	<u>3,244,245</u>	<u>287,937</u>	<u>19,752,719</u>	<u>0</u>
Total noncurrent assets	<u>16,220,537</u>	<u>3,244,245</u>	<u>287,937</u>	<u>19,752,719</u>	<u>0</u>
Total assets	<u>20,727,753</u>	<u>3,456,676</u>	<u>993,136</u>	<u>25,177,565</u>	<u>337,018</u>
Liabilities:					
Current liabilities:					
Accounts payable	45,304	34,419	36,550	116,273	0
Contracts payable	868,619	47,164	0	915,783	0
Retainage payable	229,990	0	0	229,990	0
Accrued wages and benefits	36,758	21,555	17,841	76,154	0
Due to other funds	0	2,239,589	0	2,239,589	0
Due to other governments	106,413	68,637	51,532	226,582	0
Accrued interest payable	1,460	6,144	0	7,604	0
Accrued vacation payable	95,256	57,935	40,552	193,743	0
Current portion of compensated absences	3,264	6,803	21,780	31,847	0
Current portion of OPWC loans	26,819	25,378	0	52,197	0
Current portion of OWDA loans	1,087,056	299,963	0	1,387,019	0
Current portion of capital lease obligation	0	8,944	0	8,944	0
Current portion of notes payable	300,000	1,200,000	20,200	1,520,200	0
Claims payable	0	0	0	0	166,172
Total current liabilities	<u>2,800,939</u>	<u>4,016,531</u>	<u>188,455</u>	<u>7,005,925</u>	<u>166,172</u>
Long-term liabilities:					
OPWC loans	374,071	204,772	0	578,843	0
OWDA loans	12,097,181	520,585	0	12,617,766	0
Notes payable	0	0	37,214	37,214	0
Capital lease obligation	0	29,495	0	29,495	0
Landfill closure/postclosure	0	0	5,347,032	5,347,032	0
Compensated absences	146,380	87,858	32,179	266,417	0
Total long-term liabilities	<u>12,617,632</u>	<u>842,710</u>	<u>5,416,425</u>	<u>18,876,767</u>	<u>0</u>
Total liabilities	<u>15,418,571</u>	<u>4,859,241</u>	<u>5,604,880</u>	<u>25,882,692</u>	<u>166,172</u>
Net assets:					
Invested in capital assets, net of related debt	2,335,410	955,108	230,523	3,521,041	0
Unrestricted (deficit)	<u>2,973,772</u>	<u>(2,357,673)</u>	<u>(4,842,267)</u>	<u>(4,226,168)</u>	<u>170,846</u>
Total net assets	<u>\$ 5,309,182</u>	<u>\$ (1,402,565)</u>	<u>\$ (4,611,744)</u>	<u>(705,127)</u>	<u>\$ 170,846</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				33,114	
Net assets of business-type activities				<u>\$ (672,013)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 5,270,200	\$ 2,642,164	\$ 1,224,463	\$ 9,136,827	\$ 2,256,287
Other	2,118	16,994	237	19,349	0
Total operating revenues	5,272,318	2,659,158	1,224,700	9,156,176	2,256,287
Operating expenses:					
Personal services	1,961,277	1,675,605	990,554	4,627,436	0
Contract services	0	0	379,402	379,402	0
Materials and supplies	664,783	459,755	147,015	1,271,553	0
Utilities	360,414	254,789	10,378	625,581	0
Depreciation and amortization	295,990	155,740	33,395	485,125	0
Claims	0	0	0	0	2,149,926
Total operating expenses	3,282,464	2,545,889	1,560,744	7,389,097	2,149,926
Operating income (loss)	1,989,854	113,269	(336,044)	1,767,079	106,361
Nonoperating revenue (expenses):					
Miscellaneous revenues	0	4,700	0	4,700	0
Interest revenue	10,055	5,426	2,631	18,112	648
Intergovernmental	1,884	16,921	0	18,805	0
Interest expense and fiscal charges	(507,183)	(110,266)	(2,583)	(620,032)	0
Gain on disposal of capital assets	0	0	0	0	0
Total nonoperating revenues (expenses)	(495,244)	(83,219)	48	(578,415)	648
Income before contributions and Income (loss) before transfers	1,494,610	30,050	(335,996)	1,188,664	107,009
Transfers out	0	0	0	0	(400,000)
Changes in net assets	1,494,610	30,050	(335,996)	1,188,664	(292,991)
Net assets at beginning of year (restated)	3,814,572	(1,432,615)	(4,275,748)		463,837
Net assets at end of year	\$ 5,309,182	\$ (1,402,565)	\$ (4,611,744)		\$ 170,846
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				33,114	
Changes in net assets of business-type activities				\$ 1,221,778	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>	Activities - Internal Service Funds
Cash flows from operating activities:					
Cash received from charges for services	\$ 4,759,739	\$ 3,099,690	\$ 1,484,580	\$ 9,344,009	\$ 2,256,287
Cash received from other operations	2,118	16,994	237	19,349	0
Cash payments for personal services	(1,930,864)	(1,656,446)	(977,919)	(4,565,229)	0
Cash payments for contract services.	0	0	(376,815)	(376,815)	0
Cash payments for materials and supplies.	(711,629)	(515,380)	(147,542)	(1,374,551)	0
Cash payments for utilities.	(361,422)	(254,987)	(10,378)	(626,787)	0
Cash payments for claims	0	0	0	0	(2,115,558)
Net cash provided by (used in) operating activities.	<u>1,757,942</u>	<u>689,871</u>	<u>(27,837)</u>	<u>2,419,976</u>	<u>140,729</u>
Cash flows from noncapital financing activities:					
Cash received from interfund loans	0	2,239,589	0	2,239,589	0
Cash used in repayment of interfund loans	0	(2,338,101)	0	(2,338,101)	0
Cash payments for transfers out.	0	0	0	0	(400,000)
Cash payments for nonoperating revenues.	0	4,700	0	4,700	0
Net cash used in noncapital financing activities	<u>0</u>	<u>(93,812)</u>	<u>0</u>	<u>(93,812)</u>	<u>(400,000)</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets.	(1,217,757)	(482,694)	(52,524)	(1,752,975)	0
Landfill closure/postclosure expenses	0	0	(138,210)	(138,210)	0
Principal retirement on OPWC loans.	(26,819)	0	0	(26,819)	0
Principal retirement on OWDA loans.	(985,598)	(153,098)	0	(1,138,696)	0
Principal retirement on notes.	(300,000)	(1,200,000)	(19,467)	(1,519,467)	0
Principal retirement on lease	0	(8,534)	0	(8,534)	0
Intergovernmental	1,884	16,921	0	18,805	0
Loan issuance	1,676,747	136,252	0	1,812,999	0
Note issuance	300,000	1,200,000	0	1,500,000	0
Interest and fiscal charges.	(507,183)	(110,332)	(2,583)	(620,098)	0
Net cash used in capital and related financing activities	<u>(1,058,726)</u>	<u>(601,485)</u>	<u>(212,784)</u>	<u>(1,872,995)</u>	<u>0</u>
Cash flows from investing activities:					
Interest received.	10,055	5,426	2,631	18,112	648
Net cash provided by investing activities.	<u>10,055</u>	<u>5,426</u>	<u>2,631</u>	<u>18,112</u>	<u>648</u>
Net increase (decrease) in cash and cash equivalents.	709,271	0	(237,990)	471,281	(258,623)
Cash and cash equivalents at beginning of year	<u>2,476,666</u>	<u>0</u>	<u>836,372</u>	<u>3,313,038</u>	<u>595,641</u>
Cash and cash equivalents at end of year.	<u>\$ 3,185,937</u>	<u>\$ 0</u>	<u>\$ 598,382</u>	<u>\$ 3,784,319</u>	<u>\$ 337,018</u>

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CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental Activities - Internal Service Funds</u>
	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 1,989,854	\$ 113,269	\$ (336,044)	\$ 1,767,079	\$ 106,361
Adjustments:					
Depreciation and amortization.	295,990	155,740	33,395	485,125	0
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(510,461)	457,526	260,117	207,182	0
(Increase) in prepayments.	(303)	(303)	(302)	(908)	0
Increase (decrease) in accounts payable	(46,408)	11,428	2,450	(32,530)	0
Decrease in contracts payable.	0	(66,012)	0	(66,012)	0
Increase in accrued wages and benefits	10,706	5,981	5,831	22,518	0
Increase (decrease) in accrued vacation payable	6,108	140	(1,895)	4,353	0
Increase in compensated absences payable.	9,878	9,301	671	19,850	0
Increase in due to other governments	2,578	2,801	7,940	13,319	0
Increase in claims payable	0	0	0	0	34,368
Net cash provided by (used in) operating activities . . .	<u>\$ 1,757,942</u>	<u>\$ 689,871</u>	<u>\$ (27,837)</u>	<u>\$ 2,419,976</u>	<u>\$ 140,729</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
DECEMBER 31, 2004**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 213,730
Cash in segregated accounts	<u>24,237</u>
Total assets.	<u>\$ 237,967</u>
Liabilities:	
Undistributed monies	\$ 24,237
Deposits held and due to others.	<u>213,730</u>
Total liabilities	<u>\$ 237,967</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Steubenville, (the "City"), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Beginning June 1, 1984, the City has operated under a council-manager form of government as provided by §705.51 to §705.60, Ohio Revised Code, inclusive. The powers and functions of the municipal governments are distributed among the municipality, its citizens, the various officers, boards, and commissions. The mayor is the official head of the municipality for ceremonial purposes. Administration is not part of the duties of the mayor. The City council is composed of seven members, six of whom are elected by their respective electors within their designated wards. The councilman at large, the seventh member of council, is elected by the voters of the City at large. The City council, by a majority vote, appoints the administrative City manager.

The charter created two administrative departments: the Department of Finance and the Department of Law. The Directors of these departments are appointed by the City Manager and are approved by the Council.

Several board and commissions that serve the citizens of the City in various capacities are an integral part of the municipality's government. The boards and commissions include: Civil Service Commission, Planning and Zoning Commission, Board of Engineering and Building Appeals, Parks and Recreation Board and the Board of Health. All members of these boards and commissions are appointed by the Mayor and are approved by Council.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The City's significant accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's financial statement includes all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Component units are legally separate organizations for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of these criteria, the City has no component units.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police and fire protection, planning, zoning, refuse collection, street maintenance and repairs, community development, public health and welfare, parks and recreation and water and sewer utilities. The preceding financial statements include all funds of the City (the primary government).

B. Basis of Presentation - Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service funds are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources for, and the payment of long-term principal, interest and related costs.

Other governmental funds of the City are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise funds or internal service funds.

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Refuse Fund - This fund accounts for the operations providing refuse waste removal to the residents and commercial users located with the City.

Internal Service Funds - The internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds reports on the activity of the centralized City self-insurance health program.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6.B.). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6.A.). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, licenses and permits, and fees.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the fund level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the City Auditor presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificates of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate at the time final appropriations were adopted.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for the fund that covers the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represents the final appropriation amounts passed by Council during the year.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2004, the City had no investments.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2004, interest revenue credited to the general fund amounted to \$61,437 which includes \$46,776 assigned from other City funds.

For purpose of the statement of cash flows and for presentation on the statement of net assets, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent that the investment was purchased from a specific fund.

The City has segregated bank accounts for Mayor's Court monies and employee benefits held separate from the City's central bank account. These interest bearing depository accounts are presented on the financial statements as or "Cash in Segregated Accounts" since they are not required to be deposited into the City treasury.

An analysis of the City's investment account at year-end is provided in Note 4.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventories of Materials and Supplies

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of streets, irrigation systems, and water and sewer lines. The City has opted to phase in the retroactive reporting of infrastructure capital assets. Therefore, only the infrastructure for fiscal years 2003 and 2004 has been reported in the governmental activities capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Improvements	10 - 15 years	10 - 15 years
Buildings	50 years	50 years
Equipment	10 - 20 years	10 - 20 years
Vehicles	5 - 20 years	5 - 20 years
Infrastructure:		
Sewer and Water Lines	N/A	50 years
Other	10 - 65 years	10 - 65 years

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Compensated absences of the City consist of sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee. Vacation is accrued during the prior year and must be used by December 31st of each year.

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for sick leave payments has been calculated using pay rates in effect at the financial statement date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated sick leave at various rates.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

M. Fund Balance Reserves and Designations

Reserved or designated fund balances indicate that portion of fund equity which are not available for current appropriation or use. The unreserved and undesignated portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies inventory and prepayments in the governmental fund financial statements.

N. Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, sewer and refuse enterprise funds and charges for services to other departments for the self-insurance internal service funds. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

The City has presented a prior period adjustment to correct errors made the previous year. These corrections have the following effect on the fund balances of the governmental funds:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, December 31, 2003	\$ 1,442,384	\$ 1,676,511	\$ 3,837,200	\$ 6,956,095
Correction of accrued wages	(44,599)	0	(4,968)	(49,567)
Correction of due to other governments	(6,690)	0	(745)	(7,435)
Correction of due from other governments	95,485	0	69,539	165,024
Restated Fund Balances,	<u>\$ 1,486,580</u>	<u>\$ 1,676,511</u>	<u>\$ 3,901,026</u>	<u>\$ 7,064,117</u>

The City has presented prior period adjustments to restate net assets of the governmental activities in order to implement GASB Statement No. 33 - "Accounting and Financial Reporting Nonexchange Transactions", which was required to be implemented in conjunction with GASB Statement No. 34, which was implemented during 2003.

The City has also presented a prior period adjustment to correct capital assets and accrued vacation liability reported in the previous year.

The implementation of GASB 33 and the corrections made to the fund balances, capital assets and accrued vacation liability, had the following affect on net assets of the governmental activities as previously reported:

	<u>Governmental Activities</u>
Net assets, December 31, 2003	\$ 15,446,855
Adjustment to implement GASB 33	1,058,396
Correction of due from other governments	1,697,612
Correction of income taxes receivable	(312,674)
Correction of property taxes receivable	303,042
Correction of accrued wages	(49,567)
Correction of due to other governments	(7,435)
Restatement of captial assets	124,815
Restatement of accrued vacation liability	(434,297)
Restated net assets of January 1, 2004	<u>\$ 17,826,747</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

The prior period adjustments had the following affect on the net assets of business-type activities as previously reported:

<u>Business-type Activities</u>	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
				Total
Net assets at December 31, 2003	\$ 3,903,720	\$ (1,374,820)	\$ (4,233,301)	\$ (1,704,401)
Restatement of accrued vacation liability	<u>(89,148)</u>	<u>(57,795)</u>	<u>(42,447)</u>	<u>(189,390)</u>
Restated net assets at January 1, 2004	<u>\$ 3,814,572</u>	<u>\$ (1,432,615)</u>	<u>\$ (4,275,748)</u>	<u>\$ (1,893,791)</u>

B. Change in Accounting Principles

For fiscal year 2004, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have an effect on the basic financial statements of the City, however additional note disclosure can be found in Note 4.

C. Deficit Net Assets

The following funds had deficit net assets as of December 31, 2004:

<u>Major Funds</u>	
Sewer	\$ 1,402,565
Refuse	4,611,744

These fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur. The deficit net assets in the sewer fund are caused, in part, by the application of generally accepted accounting principles. Also, the deficit net assets are partially caused by an inadequate fee structure. The City management is considering its options. The deficit retained earnings in the refuse fund is caused by the reporting of a liability for estimated closure and post-closure care costs for the municipal landfill. The liability for estimated closure and post-closure care costs is more fully described in Note 16.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

Contrary to Ohio Revised Code Section 5705.10, the City had a negative cash balance in the sewer enterprise fund of \$2,239,589. For GAAP purposes, this amount has been reported as fund liability (see Note 5.B.).

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash in Segregated Accounts

At year-end, the City had \$24,237 deposited with a financial institution for monies related to the Mayor's Court which is reported as an agency fund. These amounts are included in the City's depository balance below.

B. Deposits with Financial Institutions

At December 31, 2004, the carrying amount of all City deposits was \$4,144,246. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2004, \$3,936,332 of the City's bank balance of \$4,146,586 was exposed to custodial risk as discussed below, while \$210,254 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2004, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Repurchase Agreement	<u>\$ 4,374,259</u>	<u>\$ 4,374,259</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the exception that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be market to market daily.

Credit Risk. The City's repurchase agreements are unrated.

Concentration of Credit Risk. The City places no limit on the amount that may be invested in any one issuer. At December 31, 2004, 100 percent of the City's investments were in repurchase agreements.

D. Reconciliation of Cash to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash as reported on the statement of net assets as of December 31, 2004:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,144,246
Investments	<u>4,374,259</u>
 Total	 <u>\$ 8,518,505</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,496,219
Business type activities	3,784,319
Agency funds	<u>237,967</u>
 Total	 <u>\$ 8,518,505</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2004, consisted of a transfer from an internal service fund to the general fund in the amount of \$400,000. The purpose of this transfer was to repay the general fund for premiums paid in excess of expenses which accumulated over years.
- B. Due to/from other funds consisted for the following at December 31, 2004, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer Fund	\$ 897,869
Nonmajor governmental funds	Sewer Fund	<u>1,341,720</u>
Total due to/from other funds		<u>\$ 2,239,589</u>

The loans were made to cover a negative cash balance in the sewer fund. These loans appear as fund liabilities on the fund financial statements and as a component of the internal balance between governmental and business-type funds on the government-wide financial statements.

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value for capital assets and 23 percent of the true value for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Steubenville. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2004 was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 6 - TAXES (Continued)

Real property tax	\$ 205,439,310
Public utility tangible personal property	12,935,750
Tangible personal property	<u>29,566,069</u>
Total	<u>\$ 247,941,129</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Steubenville. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes are not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, collectible delinquent property taxes have been recorded as revenue.

B. Municipal Income Tax

The City's municipal income tax of 2.0 percent is levied on gross salaries, wages and other personal service compensation earned by residents both in and out of the City and on the earnings of nonresidents (except certain transients) earned in the City. This tax also applies to net income of business organizations within the City. Residents of the City are allowed a credit for all income taxes paid to other municipalities up to 100% of the City's current rate.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually. The income tax is collected by RITA and remitted to the City monthly.

Municipal income taxes are allocated by City ordinance as follows: 100% of the original one percent of the City income tax is for the general fund; .7% of the second one percent is allocated in various amounts to the general, street improvement, equipment and recreation fund; and .3% of this second one percent is allocated in various amounts to the general and street improvement fund.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and special assessments. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 2,032,059
Real and other taxes	1,731,075
Intergovernmental	3,015,041

Business-type Activities:

Accounts	1,631,458
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Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within the subsequent year.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS

Capital assets have been restated for the governmental activities due to an error made in the previous year. The correction adds a building in the amount of \$157,000 and accumulated depreciation for \$32,185, which is a net effect of \$124,815, see Note 3.A. for the restatement of net assets. Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Restated Balance 12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 278,013	\$ 0	\$ 0	\$ 278,013
Construction in progress	<u>6,431,528</u>	<u>918,205</u>	<u>(6,304,335)</u>	<u>1,045,398</u>
Total capital assets, not being depreciated	<u>6,709,541</u>	<u>918,205</u>	<u>(6,304,335)</u>	<u>1,323,411</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,845,216	0	(68,850)	2,776,366
Improvements	1,585,938	218,399	(300,000)	1,504,337
Equipment	579,359	141,035	0	720,394
Vehicles	3,138,949	368,497	(53,880)	3,453,566
Infrastructure	<u>694,563</u>	<u>6,862,104</u>	<u>0</u>	<u>7,556,667</u>
Total capital assets, being depreciated	<u>8,844,025</u>	<u>7,590,035</u>	<u>(422,730)</u>	<u>16,011,330</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(1,054,668)	(50,039)	2,066	(1,102,641)
Improvements	(933,177)	(61,858)	300,000	(695,035)
Equipment	(276,844)	(41,672)	0	(318,516)
Vehicles	(2,470,310)	(153,680)	18,406	(2,605,584)
Infrastructure	<u>(33,351)</u>	<u>(292,506)</u>	<u>0</u>	<u>(325,857)</u>
Total accumulated depreciation	<u>(4,768,350)</u>	<u>(599,755)</u>	<u>320,472</u>	<u>(5,047,633)</u>
Total capital assets, being depreciated, net	<u>4,075,675</u>	<u>6,990,280</u>	<u>(102,258)</u>	<u>10,963,697</u>
Governmental activities capital assets, net	<u>\$ 10,785,216</u>	<u>\$ 7,908,485</u>	<u>\$ (6,406,593)</u>	<u>\$ 12,287,108</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS (Continued)

Capital assets have been restated for the business-type activities due to an error in the previous year. The correction adds \$66,012 to construction-in-progress and overall capital assets. See Note 3.A. for the restatement of net assets.

	Restated Balance 12/31/03	Additions	Disposals	Balance 12/31/04
<u>Business-type Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 36,000	\$ 0	\$ 0	\$ 36,000
Construction in progress	<u>15,733,062</u>	<u>2,182,861</u>	<u>(12,792,399)</u>	<u>5,123,524</u>
Total capital assets, not being depreciated	<u>15,769,062</u>	<u>2,182,861</u>	<u>(12,792,399)</u>	<u>5,159,524</u>
<i>Capital assets, being depreciated:</i>				
Buildings	5,835,342	144,982	0	5,980,324
Improvements	0	21,835	0	21,835
Equipment	224,731	24,899	0	249,630
Vehicles	1,220,448	63,744	0	1,284,192
Infrastructure	<u>0</u>	<u>13,252,826</u>	<u>0</u>	<u>13,252,826</u>
Total capital assets, being depreciated	<u>7,280,521</u>	<u>13,508,286</u>	<u>0</u>	<u>20,788,807</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(4,887,897)	(111,722)	0	(4,999,619)
Improvements	0	(36)	0	(36)
Equipment	(55,972)	(18,177)	0	(74,149)
Vehicles	(766,618)	(105,636)	0	(872,254)
Infrastructure	<u>0</u>	<u>(249,554)</u>	<u>0</u>	<u>(249,554)</u>
Total accumulated depreciation	<u>(5,710,487)</u>	<u>(485,125)</u>	<u>0</u>	<u>(6,195,612)</u>
Total capital assets, being depreciated, net	<u>1,570,034</u>	<u>13,023,161</u>	<u>0</u>	<u>14,593,195</u>
Business-type activities capital assets, net	<u>\$17,339,096</u>	<u>\$ 15,206,022</u>	<u>\$ (12,792,399)</u>	<u>\$ 19,752,719</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 146,165
Security of persons and property	84,034
Transportation	284,879
Public health and welfare	634
Leisure time activity	<u>84,043</u>
Total depreciation expense - governmental activities	<u>\$ 599,755</u>

NOTE 9 - OTHER EMPLOYEE BENEFITS

COMPENSATED ABSENCES

Vacation - Employees earn vacation leave at varying rates based upon length of service. Vacation earned in any one year must be used within the following year with no carryover. At time of separation employees are entitled to any earned and unused vacation leave at that time.

Sick leave - Sick leave is according to contracts. Members of AFSCME, Police and Non-Union personal are credited with 120 hours at the beginning of each year and fire department personal are credited with 168 hours. There is no limit to the amount an employee can accumulate during their service time with the City. Upon termination, an employee with less than 10 years is entitled to 25% of accumulated sick hours. An employee with 10 years or more is entitled to 50% of accumulated sick hours. For AFSCME union members and non-union personnel there is a limit of 2,000 hours of accumulated sick hours that can be paid, police and fire personnel have no limit that can be paid. The total obligation for sick leave accrual for the City as a whole as of December 31, 2004 was \$1,531,795.

NOTE 10 - LEASES

A. Governmental Capital Leases - Lessee Disclosure

During 2004, the City entered into capitalized lease agreements for copiers. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of copiers have been capitalized in the statement of net assets in the amount of \$26,401. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Principal payments in fiscal year 2004 totaled \$4,523 paid by the general fund.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - LEASES (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2004:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2005	\$ 7,392
2006	7,392
2007	5,792
2008	<u>4,649</u>
Total	25,225
Less: amount representing interest	<u>(3,347)</u>
Present value of net minimum lease payments	<u>\$ 21,878</u>

B. Proprietary Capital Leases - Lessee Disclosure

In a prior year, capital assets consisting of backhoe equipment have been capitalized in the Sewer enterprise fund. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. The amount of the \$52,306 represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the Sewer enterprise fund. Principal payments in fiscal year 2004 totaled \$8,534.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2004:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2005	\$ 10,665
2006	10,665
2007	10,665
2008	<u>10,665</u>
Total	42,660
Less: amount representing interest	<u>(4,221)</u>
Present value of net minimum lease payments	<u>\$ 38,439</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS

A. During 2004, the following changes occurred in governmental activities long-term obligations:

	Interest	Balance			Balance	Amounts
	Rate	12/31/03	Additions	Reductions	12/31/04	Due in One Year
<u>Loans:</u>						
State Rt. 22 (ODOT)	0%	\$ 494,931	\$ 0	\$ (150,000)	\$ 344,931	\$ 75,000
State Rt. 22 (ODOT)	0%	128,967	0	(37,752)	91,215	18,876
Sunset Blvd (ODOT)	3.00%	984,079	0	(25,095)	958,984	32,459
Canterbury House/Jim Woods	3.66%	62,474	0	(62,474)	0	0
Phone System Loan	4.38%	0	77,000	(3,465)	73,535	14,243
Electrical Truck Loan	3.75%	0	106,000	(6,439)	99,561	20,018
Total loans		<u>1,670,451</u>	<u>183,000</u>	<u>(285,225)</u>	<u>1,568,226</u>	<u>160,596</u>
<u>Other long-term liabilities:</u>						
Police and Fire pension liability		2,222,073	0	(34,656)	2,187,417	36,145
Capital lease obligation		0	26,401	(4,523)	21,878	5,853
Compensated absences		<u>1,067,809</u>	<u>167,443</u>	<u>(1,721)</u>	<u>1,233,531</u>	<u>89,703</u>
Total other long-term liabilities		<u>3,289,882</u>	<u>193,844</u>	<u>(40,900)</u>	<u>3,442,826</u>	<u>131,701</u>
Total governmental activities long-term liabilities		<u>\$ 4,960,333</u>	<u>\$ 376,844</u>	<u>\$ (326,125)</u>	<u>\$ 5,011,052</u>	<u>\$ 292,297</u>

ODOT Loans - In prior years and during 2004, the City has issued various loans. The loans through the Ohio Department of Transportation (ODOT) have been issued to fund various road projects. Two loans have been issued through ODOT for State Route 22 improvements which expire in 2009. The ODOT loan for the Sunset Boulevard widening project expires in 2025. These loans are funded by income tax levies.

Equipment Loans - During 2004, the City issued loans for the purchase of new equipment. The City purchased a phone system in the amount of \$77,000 to be paid from the general fund. Principal payments of \$3,465 were made during 2004. The City also purchased an electrical service truck in the amount of \$106,000. Proceeds and payments are recorded in the Street Maintenance and Repair and State Highway special revenue funds. Both loans mature in 2009.

Police and Fire Pension Liability - The police and fire pension obligation payable was entered into in 1973 with a total principal amount financed of \$2,574,594. These obligations payable were offered to assist governments throughout the State Of Ohio to fund their unfunded pension costs associated with police and fire service. This obligation is being repaid through the use of local property tax revenues in the general fund where the proceeds received are to be used to pay this pension obligation.

Capital Lease Obligation - capital lease payments are made from the general fund. See Note 10.A for lease details.

Compensated Absences - compensated absences will be paid from the fund in which the employee who has earned the leave is paid from, which is primarily the general fund.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

The following is a summary of the City's governmental activities future annual debt service requirements:

<u>Year</u>	<u>ODOT Loans</u>			<u>Equipment Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 126,335	\$ 28,530	\$ 154,865	\$ 34,261	\$ 6,320	\$ 40,581
2006	127,398	27,546	154,944	35,657	4,925	40,582
2007	128,499	26,532	155,031	37,108	3,471	40,579
2008	129,631	25,485	155,116	38,621	1,960	40,581
2009	97,570	24,404	121,974	27,449	785	28,234
2010 - 2014	203,595	104,518	308,113	0	0	0
2015 - 2019	239,205	71,647	310,852	0	0	0
2020 - 2024	281,044	33,025	314,069	0	0	0
2025 - 2029	61,853	1,395	63,248	0	0	0
Totals	\$ 1,395,130	\$ 343,082	\$ 1,738,212	\$ 173,096	\$ 17,461	\$ 190,557

<u>Year</u>	<u>Police & Fire Pension</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 36,145	\$ 92,585	\$ 128,730
2006	37,697	91,032	128,729
2007	39,316	89,414	128,730
2008	41,004	87,725	128,729
2009	42,767	85,964	128,731
2010 - 2014	243,013	400,637	643,650
2015 - 2019	299,880	343,767	643,647
2020 - 2024	370,060	273,590	643,650
2025 - 2029	456,657	187,190	643,847
2030 - 2034	563,522	80,126	643,648
2035	57,356	1,219	58,575
Totals	\$ 2,187,417	\$ 1,733,249	\$ 3,920,666

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2004, the following changes occurred in the business-type activities long-term obligations:

	Interest Rate	Balance 12/31/03	Additions	Retirements	Balance 12/31/04	Amount Due in One Year
<u>OWDA loans:</u>						
Sewer - OWDA #3495	3.20%	\$ 702,544	\$ 33,152	\$ (139,646)	\$ 596,050	\$ 286,032
Sewer - OWDA #3868	3.53%	219,231	18,719	(13,452)	224,498	13,931
Water - OWDA #3441	3.90%	7,357,748	353,305	(296,509)	7,414,544	308,186
Water - OWDA #3459	3.20%	1,604,898	54,960	(335,525)	1,324,333	346,348
Water - OWDA #3686	3.95%	2,493,200	1,098,559	(65,754)	3,526,005	135,429
Water - OWDA #3734	3.20%	1,037,242	169,923	(287,810)	919,355	297,093
Total OWDA loans		<u>13,414,863</u>	<u>1,728,618</u>	<u>(1,138,696)</u>	<u>14,004,785</u>	<u>1,387,019</u>
<u>OPWC loans:</u>						
Sewer - OPWC #CN28D	0.00%	145,769	84,381	0	230,150	25,378
Water - OPWC #CN523	0.00%	70,468	0	(5,872)	64,596	5,872
Water - OPWC #CN729	0.00%	81,786	0	(6,058)	75,728	6,058
Water - OPWC #CN038	0.00%	275,455	0	(14,889)	260,566	14,889
Total OPWC loans		<u>573,478</u>	<u>84,381</u>	<u>(26,819)</u>	<u>631,040</u>	<u>52,197</u>
<u>General obligation notes:</u>						
Refuse - garbage packer	3.71%	76,881	0	(19,467)	57,414	20,200
Water improvements	5.84%	300,000	300,000	(300,000)	300,000	300,000
Sewer improvements	5.84%	1,200,000	1,200,000	(1,200,000)	1,200,000	1,200,000
Total General obligation notes		<u>1,576,881</u>	<u>1,500,000</u>	<u>(1,519,467)</u>	<u>1,557,414</u>	<u>1,520,200</u>
<u>Other long-term liabilities:</u>						
Capital lease obligation	4.75%	46,973	0	(8,534)	38,439	8,944
Compensated absences	n/a	278,414	19,850	0	298,264	31,847
Landfill closure/postclosure	n/a	5,485,242	0	(138,210)	5,347,032	0
Total other long-term liabilities		<u>5,810,629</u>	<u>19,850</u>	<u>(146,744)</u>	<u>5,683,735</u>	<u>40,791</u>
Total business-type long-term obligations		<u>\$ 21,375,851</u>	<u>\$ 3,332,849</u>	<u>\$ (2,831,726)</u>	<u>\$ 21,876,974</u>	<u>\$ 3,000,207</u>

OWDA Loans - The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2004, the City has outstanding borrowings of \$14,004,785. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. The projects financed through OWDA loans are not closed out as of December 31, 2004. Future annual debt service principal and interest requirements for these loans reflect the full amount of the amount to be financed, which is \$15,997,451 as of December 31, 2004. Therefore, there is \$1,095,266 available to be drawn down on these loans at December 31, 2004.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

OPWC Loans - During 2003, the City was granted a \$253,785 loan from the Ohio Public Works Commission (OPWC). The purpose of the loan is to finance and reimburse the costs of replacing a wastewater treatment laboratory facility to meet Ohio Environmental Protection Agency requirements. The loan is being paid from the Sewer fund over 10 years, with semi-annual payments of \$12,689. This loan is used as a line-of credit and disbursements are made as funds are needed and is not closed. As of December 31, 2004, the City has received \$230,150, and no payments have been due. In prior years the City received loans from OPWC to fund improvements of the water plant. The loans granted totaled \$536,402 and payments are made from the water fund in semi-annual payments over 20 years. There is no interest on these loans. The schedule of future debt service payments below reflect the full amount to be financed (\$654,675) rather than the amounts received and due at year-end (\$631,040).

General Obligation Notes - The City has three general obligation notes outstanding at year end. The Refuse enterprise fund has issued a note to finance the purchase of a garbage packer. This note matures in 2007 and has an interest rate of 3.75%. The water and Sewer enterprise funds have issued notes to finance various improvements. These notes mature in 2005 and have an interest rate of 5.84%. All enterprise fund notes outstanding at year-end are liabilities of the respective enterprise fund and will be repaid by user charges.

Landfill Closure/Postclosure Liability - See Note 16 for landfill information.

The following is a summary of the City's business-type activities future annual debt service requirements:

Year	OPWC Loans			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 52,197	\$ 0	\$ 52,197	\$ 1,387,019	\$ 585,439	\$ 1,972,458
2006	52,198	0	52,198	1,435,035	537,424	1,972,459
2007	52,197	0	52,197	1,484,729	487,730	1,972,459
2008	52,197	0	52,197	1,371,474	436,296	1,807,770
2009	52,198	0	52,198	695,157	394,137	1,089,294
2010 - 2014	260,991	0	260,991	3,003,207	1,624,912	4,628,119
2015 - 2019	95,466	0	95,466	3,643,697	984,423	4,628,120
2020 - 2024	37,231	0	37,231	2,977,133	244,241	3,221,374
Totals	<u>\$ 654,675</u>	<u>\$ 0</u>	<u>\$ 654,675</u>	<u>\$ 15,997,451</u>	<u>\$ 5,294,602</u>	<u>\$ 21,292,053</u>

Year	Refuse Garbage Packer Note		
	Principal	Interest	Total
2005	\$ 20,200	\$ 1,850	\$ 22,050
2006	20,960	1,090	22,050
2007	16,254	305	16,559
Totals	<u>\$ 57,414</u>	<u>\$ 3,245</u>	<u>\$ 60,659</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

- C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2004, the City's total debt margin was \$27,965,389, and the unvoted debt margin was \$15,568,332 both amounts include available funds of \$1,931,570.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was part of the Ohio Municipal Alliance, an insurance purchasing pool, for all property, crime, liability, boiler and machinery, and public official liability. The City has transferred its risk of loss to the insurance carrier to the extent of the limits shown below.

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Limits of Coverage</u>
Property	\$ 5,000	\$25,192,451
Employee dishonesty	250	100,000
Money and securities	250	25,000
Vehicle	1,000	1,000,000
General liabilities	10,000	1,000,000
Law enforcement	7,500	1,000,000
Public officials liability	10,000	1,000,000
Employment practices	15,000	1,000,000
Umbrella liability	N/A	2,000,000

B. Health Insurance

The City provides health care coverage through a self-insured program administered by Health Assurance. The City pays 100% of the monthly medical claims for full-time and part-time employees. The City's insurance claims are transferred from various funds to the Health Care Fund. Monthly, the administrator bills the City for an administrative fee and the amount of claims paid. The City issues a check from the General, Water, Sewer, Refuse and Community Development Funds for the administrative fee and a check from the Health Care Fund for the amount of claims paid.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2004, is estimated by the third party administrator at \$166,172. The changes in the claims liability for 2004 and 2003 were as follows:

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - RISK MANAGEMENT (Continued)

<u>Year</u>	<u>Beginning Balance</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 131,804	\$ 2,149,926	\$(2,115,558)	\$ 166,172
2003	152,256	1,502,833	(1,523,287)	131,802

C. Workers' Compensation

The City also participates in the Ohio Municipal League public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald Company. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

There were no significant reductions in insurance coverage from the prior year in any category of risk. Claims have not exceeded coverage limitations in any of the past three years.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the City.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS (Continued)

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$809,299, \$791,388, and \$755,768, respectively; 93% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The unpaid portion for 2004 of \$59,606 is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2004.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$891,181, \$899,727, and \$841,873 for the years ended December 31, 2004, 2003, and 2002, respectively. The full amount has been contributed for 2003 and 2002. 75% for police and firefighters has been contributed for 2004 with the remainder of \$220,941 being reported as a liability in the respective funds.

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 14 - POSTRETIREMENT BENEFIT PLANS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually after 8 years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$238,907. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 14 - POSTRETIREMENT BENEFIT PLANS (Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$178,123 for police and \$142,930 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), was 13,662 for police and 10,474 for firefighters.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING (Continued)

	<u>General</u>
Budget basis	\$ (2,172,996)
Net adjustment for revenue accruals	(493,042)
Net adjustment for expenditure accruals	674,179
Net adjustment for other sources/uses	26,401
Adjustment for encumbrances	<u>891,728</u>
GAAP basis	<u>\$ (1,073,730)</u>

NOTE 16 - LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its municipal landfill site and to perform certain maintenance and monitoring functions at the closed landfill site for thirty years after closure. The landfill is no longer being used; however, the final cover as required by state and federal laws has not been placed on the landfill. The first phase of placing the final cover on the landfill is planned to begin in 2006. The estimated liability for the landfill is \$2,792,750 for closure costs and \$2,692,492 for the post closure care costs for a total liability of \$5,485,242. The estimated cost of landfill closure and postclosure care expenses is based on the amount that would be paid if all materials and services required to monitor and maintain the closed landfill were acquired as of December 31, 2004. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. Expenses in the amount of \$138,200 were made during 2004, which decreased the estimated liability to \$5,347,032.

NOTE 17 - WATER AND WASTEWATER COMPLIANCE

The City of Steubenville has been mandated by the Ohio Environmental Protection Agency to upgrade the water and wastewater system in the City. The City anticipates spending approximately \$54 million to upgrade these facilities over the next several years. Construction began in 2002 to upgrade the water system (raw water transmission mains, raw water intake lines and pump station). Some loans have been obtained through the Ohio Public Works Commission which are included in the long-term liabilities of the Water and Sewer enterprise funds and are described in Note 11.

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 18 - CONTINGENCIES (Continued)

B. Litigation

The City has been named in various lawsuits, however, according to the City's legal counsel, legal proceedings will not have a material effect, if any, on the financial condition of the City. The City is currently appealing a decision made on May 10, 2005, regarding water supply to Jefferson County in favor of the County in the amount of \$782,000.

NOTE 19 - SIGNIFICANT SUBSEQUENT EVENTS

On November 17, 2005, the City issued \$2,359,000 in bonds. A portion of the bonds were used to retire the water and sewer improvement notes. The remainder was used to pay costs of improving and extending the City's sanitary sewer system. The bonds mature on November 17, 2025, and the interest rate is 5.45 percent.

In February 2005, the City issued a \$759,000 note for the construction of the new water treatment plant. The note was a one year interest only balloon note that was retired during 2005 with bonds.

On April 21, 2005, the City issued \$1,120,000 of general obligation bonds for improving the City's water system, including the construction of a new water treatment plant and pump station. The bonds have a maturity date of November 30, 2014 and an interest rate of 4.3 percent.

During 2005, the City entered into a loan agreement with OWDA in the amount of \$23,015,181 for the construction of a water treatment plant. As of April 30, 2006, the City has drawn down \$2,967,821.44. The loan has a maturity date of July 1, 2027 with an interest rate of 3.25 percent.

On July 15, 2005, the City issued a loan in the amount of \$752,100 for work on the State Route 43 reconstruction project, the wastewater treatment plant water service line and sanitary sewer line repair. The loan has a maturity date of July 15, 2015 and an interest rate of 4.69 percent.

During 2005, the City received additional loan proceeds from Ohio Water Development Authority (OWDA) totaling \$296,415 for existing water project loans.

The City transferred \$2,152,925 from the bond retirement fund to the general fund on December 16, 2005 for the purpose of funding the employee early retirement incentive program. This transfer was authorized by a petition filed with the Common Pleas Court.

In March 2006, there was a settlement of a class action law suit against the City. The lawsuit was related to traffic speeding tickets that were issued through the use of electronic monitoring cameras. The City installed and removed the cameras and the lawsuit was filed during 2005. The City was ordered to refund \$85 per ticket issued to all individuals participating in the lawsuit. At 12/31/05, the City had encumbered \$225,489 for this purpose. Due to the fact that the lawsuit did not exist at 12/31/04, there is no liability recorded on the financial statements.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

April 30, 2006

Mayor and Members of Council
City of Steubenville
Steubenville, OH 43952

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Steubenville (the "City") as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 30, 2006. Also, we did not express an opinion on the activity of the Internal Service Fund as certain information related to expenses and liabilities was not available to be audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. A reportable condition is described in the accompanying schedule of findings as item 2004-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition 2004-006 described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated April 30, 2006.

City of Steubenville
Independent Auditor's Report on Compliance and Internal Control
Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*
April 30, 2006
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings as items 2004-001 through 2004-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated April 30, 2006.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the City Council and is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

April 30, 2006

To the Mayor and Members of Council
City of Steubenville
Steubenville, OH 43952

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the City of Steubenville (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

City of Steubenville
Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133
April 30, 2006
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over compliance and operations that we have reported to management of the City in a separate letter dated April 30, 2006.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Hea & Associates, Inc.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR/PASS THROUGH GRANTOR - PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANT NUMBER	DISBURSEMENTS
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant Entitlement Grants	14.218	B03-MC-39-0020	\$ 360,419
Community Development Block Grant Entitlement Grants	14.218	B04-MC-39-0020	561,875
Total Entitlement Grants			922,294
Passed-Through State Department of Development			
Community Housing Improvement Program	14.239	A-C-02-296-2	122,618
Total U.S. Department of Housing and Urban Development			1,044,912
<u>U.S. Department of Justice:</u>			
Local Law Enforcement Block Grant	16.592	03LBBX1703	12,207
Sub-total			12,207
Passed-Through State Office of Criminal Justice Services:			
Title V Communities That Care Grant	16.548	03JVT505042	19,418
Sub-total			19,418
Total U.S. Department of Justice			31,625
<u>U.S. Department of Agriculture:</u>			
Passed-Through State Department of Education:			
Summer Food Program	10.559	CY04	128,939
Total U.S. Department of Agriculture			128,939
<u>Department of Homeland Security</u>			
Passed-Through Ohio Emergency Management Agency			
Public Assistance Grant	97.036	FEMA-1519-DR-081-74608	30,464
Public Assistance Grant		FEMA-1507-DR-081-74608	45,666
Public Assistance Grant		FEMA-1556-DR-081-74608	37,239
Sub-total			113,369
Assistance to Firefighters Grant Program	83.554	EMW-2003-FG-12306	0
Total Department of Homeland Security			113,369
<u>U.S. Department of Health and Human Services:</u>			
Passed-Through State Department of Health:			
Childhood Lead Poisoning Prevention Grant	93.197	41-2-001-1-BD-04	15,393
Total U.S. Department of Health and Human Services			15,393
Total Federal Financial Assistance			\$ 1,334,238

See accompanying notes to schedule of expenditures of federal awards.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B: MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal fund (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS
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A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Qualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d) (1) (ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	No
(d) (1) (vii)	Major Programs (list):	CFDA # 14.218
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Non-Compliance Citations

Finding Number	2004-001
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Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which the fund is established. The following funds had significant negative fund balances during fiscal year 2004:

Sewer Fund (51): \$2,286,753

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2004

Non-Compliance Citations (Continued)

Finding Number	2004-002
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Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

Council amends their budgets quarterly. However, during FY'04, council passed amended certificate ordinances but, other than the first 2 certificates from Feb. and March, the city failed to send this information to the County auditor so the county could provide them with an amended certificate.

Finding Number	2004-003
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Ohio Rev. Code Section 5705.38 requires on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1. Ohio Rev. Code Section 5705.40 requires any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

Per review of the Minutes, the City passed an annual appropriations measure on 3/16/04 (Ord. No. 2004-17). The City Council did approve quarterly appropriations amendments, however, these were not submitted to the County Auditor as required.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2004

Non-Compliance Citations (Continued)

Finding Number	2004-004
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Ohio Rev. Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Certificates of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission in the General Fund and Refuse Fund by \$474,667 and \$392,262, respectively.

Finding Number	2004-005
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Ohio Rev. Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Council if such expenditure is otherwise valid.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2004

Non-Compliance Citations (Continued)

Finding Number	2004-005 (Continued)
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2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislature authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The City did not properly certify or record the amount against the applicable appropriation accounts for 25 of 60 (41%) of tested expenditures in 2004. In addition, \$6,314 (42%) of CDBG fund expenditures lacked prior certification. The City did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City’s funds exceeding budgetary spending limitations, the Finance Director should certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, “then and now” certification should be used.

The City should certify purchases to which Ohio Revised Code section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The finance director should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2004

Finding Number	2004-006
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Material Weakness

Ohio Administrative Code Section 117-2-01(A) provides all public offices are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for the respective public offices in certain categories. This includes developing and formally documenting policies and procedures for significant functions of the City.

The City has delegated employees' health insurance claims processing and data processing services, which are significant accounting functions, to third party administrators. The City has not established procedures to reasonably determine that health insurance claims and data processing services have been completely and accurately administered in accordance with the contracts.

The City should implement procedures to reasonably assure the completeness and accuracy of health insurance and data processing services handled by the third party administrators. Statement of Auditing Standards No. 70 (SAS 70) prescribes testing and reporting standards which should satisfy this requirement. As described in the Statement, the City should obtain a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from a third party administrator. Such a report, if unqualified, would provide evidence to the City's management that health insurance claims processing and data processing are in conformance with the contract. If a SAS 70 report is not provided to the City, the City should implement procedures so that each statement from the third party administrator is reviewed to determine that the claims being processed are the obligations of the City and that amounts are accurate and in accordance with the contracts.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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NONE	
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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Ohio Revised Code Section 5705.10, two City funds had negative fund balances.	No	Re-issued as Finding 2004- 001
2003-002	Ohio Revised Code Section 5705.39, two City funds had expenditures exceeding appropriations.	No	Re-issued as Finding 2004- 004
2003-003	Ohio Revised Code Section 5705.41(D), failure to properly certify expenditures.	No	Re-issued as Finding 2004- 005
2003-004	Ohio Admin Code Section 117-2-01(A), City had not established procedures to determine if health insurance claims and data processing services are accurately administered in accordance with contract.	No	Re-issued as Finding 2004- 006
2003-005	Ohio Admin Code Section 117-2-02(B)(1), Control weaknesses noted in City's financial reporting systems.	Yes	
2003-006	Establish and maintain a capital asset accounting system with sufficient information to prepare financial statements.	Yes	



City of Steubenville

Finance Office

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CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2004 AUDIT FINDINGS

2004-001 Ohio Rev. Code Section 5705.10

The Sewage Fund (51) had a negative fund balance of \$2,318,818 at December 31, 2004. In 2005 a rate increase went in effect non only to cover operating expenditures and debt service, but to also gradually climb out of the deficit over a five (5) year period.

2004-002 Ohio Rev. Code Section 5705.36

The City did not file appropriate paperwork with the Jefferson County Auditors Office for the year 2004. By the end of 2005, the appropriate paperwork had been filed with the county auditor's office and internal policies were put in place to assure in the future this failure to file the appropriate paperwork will not be an issue.

2004-003 Ohio Rev. Code Section 5705.38

The City did not file appropriate paperwork with the Jefferson County Auditors Office for the year 2004. By the end of 2005, the appropriate paperwork had been filed with the county auditor's office and internal policies were put in place to assure in the future this failure to file the appropriate paperwork will not be an issue.

2004-004 Ohio Rev. Code Section 5705.39


The General Fund (01) and the Refuse Fund (52) exceeded its appropriations for the year 2004. This is due to unexpected expenditures that occurred during the time period between the passing of the final budget and December 31, 2004.

2004-005 Ohio Rev. Code Section 5705.41 (D)

The City of Steubenville has procedures in accordance with state law for the issuance and approval of purchase orders for the purpose of expending City monies. At time there are circumstances in which a purchase is made without written approval on a purchase order. The City is continually striving for more accurate budget and planning in order to foresee as many as these circumstances in advance to prevent this from occurring as much.

2004-006 Ohio Administrative Code Section 117-2-01 (A)

The City of Steubenville contracts with Health Assurance of Pittsburgh Pennsylvania as its third party administrator for health insurance claims. Being that Health Assurance is a Pennsylvania based corporation, they are not required by state law to have an SAS 70 performed. The City is extremely satisfied with this company and for that reason not changed companies because of this finding. Health Assurance provides us with adequate information on health claims paid that the city in no way feels that there is any mishandling of the City's claims.



Michael J. Marshall
Finance Director
City of Steubenville

6.19.06
Date



**Auditor of State
Betty Montgomery**

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CITY OF STEUBENVILLE

JEFFERSON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 3, 2006**