

City of Steubenville
Jefferson County, Ohio

Audited Financial Statements

December 31, 2005



**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, 2005 through December 31, 2005. 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

December 20, 2006

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2005

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2005

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Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

August 1, 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, 2005, 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, 2005, 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 August 1, 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.

Hea & Associates, Inc.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 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, 2005. 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 2005 are as follows:

- Ø The total net assets of the City increased \$457,284. Net assets of governmental activities increased \$951,666 and net assets of business-type activities decreased \$494,382.
- Ø General revenues accounted for \$12,493,228, or 71.43% of total governmental activities revenue. Program specific revenues accounted for \$4,990,904 or 28.53% of total governmental activities revenue of \$17,491,028, which also includes a transfer of \$6,896.
- Ø The City had \$16,539,362 in expenses related to governmental activities; \$4,990,904 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$11,548,458 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$12,493,228 and transfers of \$6,896.
- Ø The general fund had revenues and other financing sources of \$14,425,234 in 2005. This represents an increase of \$2,568,724 from 2004 revenues primarily due to a transfer from the debt service fund. The expenditures of the general fund, which totaled \$13,337,971 in 2005, increased \$407,731 from 2004 partially due to the claims payable for the litigation which was settled in the subsequent year. The net increase in fund balance for the general fund was \$1,087,263, from \$412,850 to \$1,500,113.
- Ø Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, decreased in 2005 by \$494,382. This decrease is primarily due to operating revenues which did not cover expenses as well as increased expenses for water infrastructure projects.
- Ø In the general fund, the actual revenues came in \$3,275,343 below the final budgeted revenues. Actual expenditures were \$3,104,645 less than the amount in the final budget. This was primarily due to the elimination of a transfer in and out of the general fund, which was eliminated for reporting purposes. The revenue variances are the result of decreasing income tax and property tax revenues. Budgeted revenues and expenditures stayed the same throughout the year.

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, 2005
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 2005?" 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, 2005
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 fund is the general 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 refuse 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 - 61 of this report.

CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2005 and 2004. Certain 2004 amounts have been restated, which is described in Note 3.B. in the notes to the basic financial statements.

	Net Assets					
	Governmental Activities	Business-type Activities	Restated		2005 Total	Restated 2004 Total
			Governmental Activities	Business-type Activities		
2005	2005	2004	2004			
<u>Assets</u>						
Current and other assets	\$ 14,210,163	\$ 1,773,697	\$ 13,570,921	\$ 3,218,371	\$ 15,983,860	\$ 16,789,292
Capital assets, net	<u>12,820,572</u>	<u>21,536,302</u>	<u>11,219,386</u>	<u>19,752,719</u>	<u>34,356,874</u>	<u>30,972,105</u>
Total assets	<u>27,030,735</u>	<u>23,309,999</u>	<u>24,790,307</u>	<u>22,971,090</u>	<u>50,340,734</u>	<u>47,761,397</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,674,329	23,017,591	5,011,052	21,876,974	28,691,920	26,888,026
Other liabilities	<u>4,119,364</u>	<u>1,458,803</u>	<u>3,493,879</u>	<u>1,766,129</u>	<u>5,578,167</u>	<u>5,260,008</u>
Total liabilities	<u>9,793,693</u>	<u>24,476,394</u>	<u>8,504,931</u>	<u>23,643,103</u>	<u>34,270,087</u>	<u>32,148,034</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	10,295,202	3,617,908	9,117,364	3,521,041	13,913,110	12,638,405
Restricted	5,344,654	-	6,909,082	-	5,344,654	6,909,082
Unrestricted	<u>1,597,186</u>	<u>(4,784,303)</u>	<u>258,930</u>	<u>(4,193,054)</u>	<u>(3,187,117)</u>	<u>(3,934,124)</u>
Total net assets	<u>\$ 17,237,042</u>	<u>\$ (1,166,395)</u>	<u>\$ 16,285,376</u>	<u>\$ (672,013)</u>	<u>\$ 16,070,647</u>	<u>\$ 15,613,363</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$16,070,647. At year-end, net assets were \$17,237,042 and (\$1,166,395) 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 68.25% 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, 2005, were \$10,295,202 and \$3,617,908 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, 2005, the City is able to report positive balances in all three categories of net assets, for the governmental activities.

A portion of the City's net assets, \$5,344,654, 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 of \$1,597,186 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2005 and 2004. Certain 2004 amounts have been restated which is described in Note 3.A. in the notes to the basic financial statement.

	Change in Net Assets					
			Restated			
	Governmental	Business-type	Governmental	Business-type		Restated
	Activities	Activities	Activities	Activities	2005	2004
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>Total</u>	<u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,534,225	\$ 7,815,624	\$ 949,617	\$ 9,156,176	\$ 9,349,849	\$ 10,105,793
Operating grants and contributions	3,299,749	-	2,341,005	1,884	3,299,749	2,342,889
Capital grants and contributions	<u>156,930</u>	<u>-</u>	<u>18,506</u>	<u>82,933</u>	<u>156,930</u>	<u>101,439</u>
Total program revenues	<u>4,990,904</u>	<u>7,815,624</u>	<u>3,309,128</u>	<u>9,240,993</u>	<u>12,806,528</u>	<u>12,550,121</u>
General revenues:						
Property taxes	1,433,401	-	1,492,960	-	1,433,401	1,492,960
Income taxes	8,496,116	-	7,891,687	-	8,496,116	7,891,687
Hotel taxes	237,241	-	81,902	-	237,241	81,902
Unrestricted grants and entitlements	1,939,642	-	2,237,786	-	1,939,642	2,237,786
Investment earnings	161,181	72,849	67,950	18,112	234,030	86,062
Miscellaneous	<u>225,647</u>	<u>-</u>	<u>197,313</u>	<u>4,700</u>	<u>225,647</u>	<u>202,013</u>
Total general revenues	<u>12,493,228</u>	<u>72,849</u>	<u>11,969,598</u>	<u>22,812</u>	<u>12,566,077</u>	<u>11,992,410</u>
Total revenues	<u>17,484,132</u>	<u>7,888,473</u>	<u>15,278,726</u>	<u>9,263,805</u>	<u>25,372,605</u>	<u>24,542,531</u>
Expenses:						
General government	3,643,118	-	2,921,646	-	3,643,118	2,921,646
Security of persons and property	7,039,478	-	7,219,148	-	7,039,478	7,219,148
Public health and welfare	552,773	-	551,723	-	552,773	551,723
Transportation	2,662,626	-	2,578,988	-	2,662,626	2,578,988
Community environment	1,152,806	-	1,204,524	-	1,152,806	1,204,524
Leisure time activity	1,330,663	-	1,136,809	-	1,330,663	1,136,809
Other	-	-	375	-	-	375
Interest and fiscal charges	157,898	-	139,162	-	157,898	139,162
Water	-	3,883,618	-	3,774,894	3,883,618	3,774,894
Sewer	-	2,926,004	-	2,706,380	2,926,004	2,706,380
Electric	<u>-</u>	<u>1,566,337</u>	<u>-</u>	<u>1,560,753</u>	<u>1,566,337</u>	<u>1,560,753</u>
Total expenses	<u>16,539,362</u>	<u>8,375,959</u>	<u>15,752,375</u>	<u>8,042,027</u>	<u>24,915,321</u>	<u>23,794,402</u>
Increase (decrease) in net assets before transfers	944,770	(487,486)	(473,649)	1,221,778	457,284	748,129
Transfers	<u>6,896</u>	<u>(6,896)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	951,666	(494,382)	(473,649)	1,221,778	457,284	748,129
Net assets at beginning of year (restated)	<u>16,285,376</u>	<u>(672,013)</u>	<u>16,759,025</u>	<u>(1,893,791)</u>	<u>15,613,363</u>	<u>14,865,234</u>
Net assets at end of year	<u>\$ 17,237,042</u>	<u>\$ (1,166,395)</u>	<u>\$ 16,285,376</u>	<u>\$ (672,013)</u>	<u>\$ 16,070,647</u>	<u>\$ 15,613,363</u>

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$951,666 in 2005. The increase is a result of slightly increasing revenues exceeding expenses.

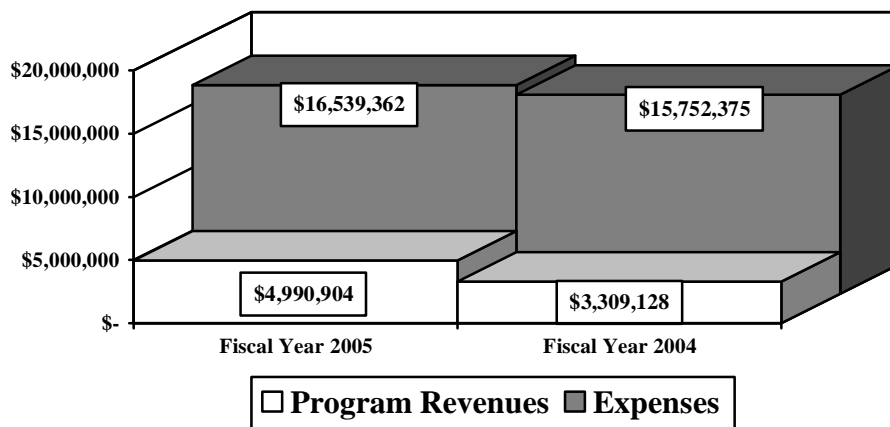
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$7,039,478 which accounted for 42.56% of the total expenses of the City. These expenses were partially funded by \$9,401 in operating grants and contributions and \$156,930 in capital grants and contributions. General government expenses totaled \$3,643,118 which was partially funded by \$1,162,228 and \$136,491 in operating grants and contributions.

The state and federal government contributed to the City a total of \$3,456,679 in operating grants and contributions.

General revenues totaled \$12,493,228 and amounted to 71.43% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$9,929,517. 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 \$1,939,642.

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

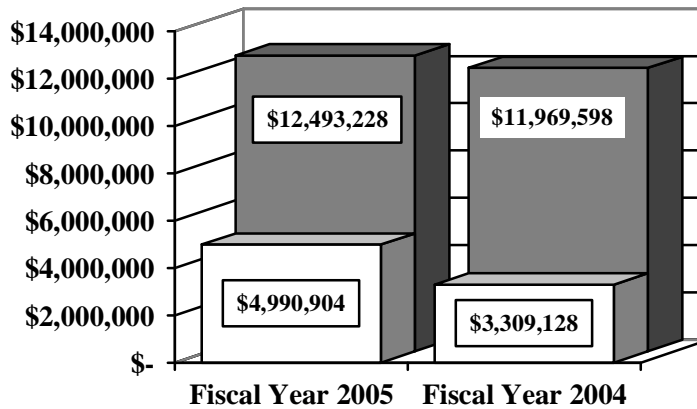
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:				
General government	\$ 3,643,118	\$ 2,344,399	\$ 2,921,646	\$ 2,342,708
Security of persons and property	7,039,478	6,873,147	7,219,148	7,217,792
Public health and welfare	552,773	436,026	551,723	425,366
Transportation	2,662,626	492,787	2,578,988	1,361,850
Community environment	1,152,806	189,319	1,204,524	119,846
Leisure time activity	1,330,663	1,054,882	1,136,809	854,654
Other	-	-	375	375
Interest and fiscal charges	<u>157,898</u>	<u>157,898</u>	<u>139,162</u>	<u>139,162</u>
Total	<u>\$ 16,539,362</u>	<u>\$ 11,548,458</u>	<u>\$ 15,752,375</u>	<u>\$ 12,461,753</u>

The dependence upon general revenues for governmental activities is apparent, with 69.82% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues

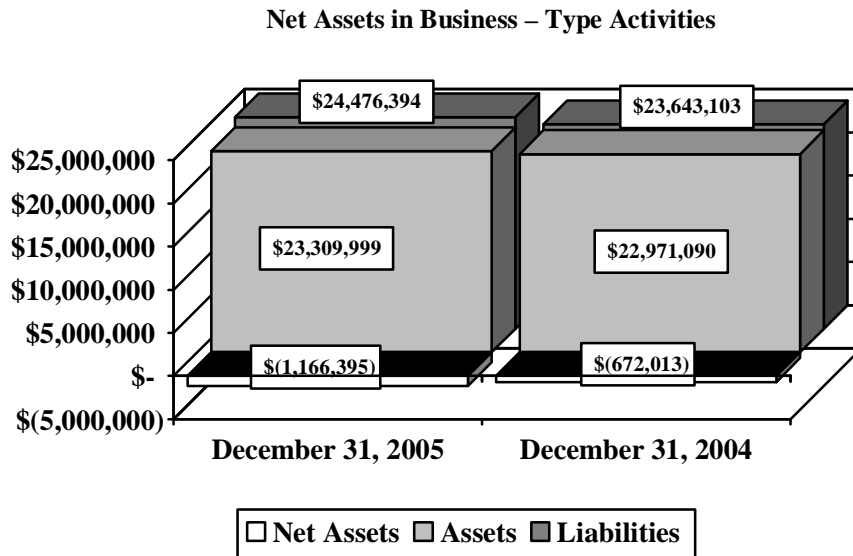


□ Program Revenues ■ General Revenues

CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$7,815,624, general revenues of \$72,849, and expenses of \$8,375,959 for 2005. 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 \$5,353,778 which is \$268,141 less than the previous year's fund balance of \$5,621,919. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and nonmajor governmental funds. During 2004 the debt service fund was reported as a major fund, however, this fund is no longer a major fund in 2005.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	<u>Fund Balances</u> <u>12/31/05</u>	<u>Fund Balances</u> <u>12/31/04</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,500,113	\$ 412,850	\$ 1,087,263
Other nonmajor governmental funds	<u>3,853,665</u>	<u>5,209,069</u>	<u>(1,355,404)</u>
Total	<u>\$ 5,353,778</u>	<u>\$ 5,621,919</u>	<u>\$ (268,141)</u>

General Fund

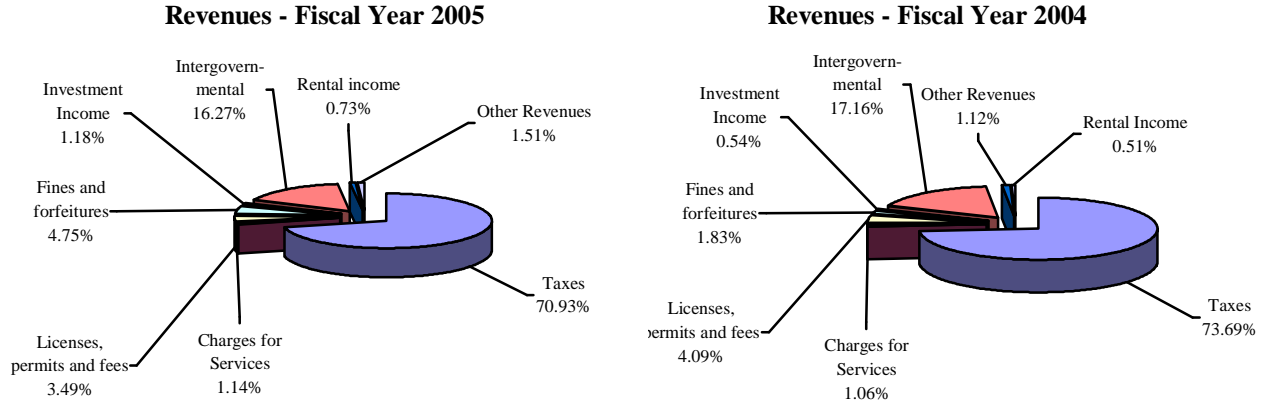
The City's general fund balance increased \$1,087,263, primarily due to a transfer from the debt service fund and also increases in fines and forfeitures and investment income. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,699,210	\$ 8,349,581	4.19 %
Charges for services	139,830	119,453	17.06 %
Licenses, permits and fees	428,508	463,173	(7.48) %
Fines and forfeitures	582,270	207,124	181.12 %
Investment income	144,510	61,437	135.22 %
Intergovernmental	1,996,091	1,944,454	2.66 %
Rental income	89,754	57,726	55.48 %
Other	<u>184,659</u>	<u>127,171</u>	<u>45.21 %</u>
Total	<u>\$ 12,264,832</u>	<u>\$ 11,330,119</u>	<u>8.25 %</u>

Tax revenue represents 70.93% of all general fund revenue. The most significant increase in revenues occurred in fines and forfeitures which is the result of the addition of cameras in various locations which ticket cars for speeding. Investment income increased due to an increased interest rate by the federal reserves.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**



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

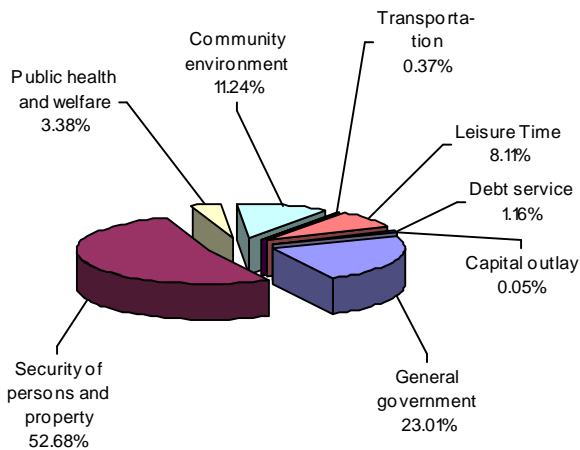
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 3,068,939	\$ 2,685,117	14.29 %
Security of persons and property	7,024,264	7,188,972	(2.29) %
Public health and welfare	450,214	442,872	1.66 %
Transportation	1,498,514	1,351,835	10.85 %
Community environment	49,641	61,428	(19.19) %
Leisure time activity	1,081,458	1,034,328	4.56 %
Capital outlay	7,377	26,401	(72.06) %
Debt service	154,265	139,287	10.75 %
Total	<u>\$ 13,334,672</u>	<u>\$ 12,930,240</u>	<u>3.13 %</u>

The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to overall cost decreases in purchased goods and services. The increase in general government is partially due to the settlement of litigation in the subsequent year. The increase in debt service is due to a new lease.

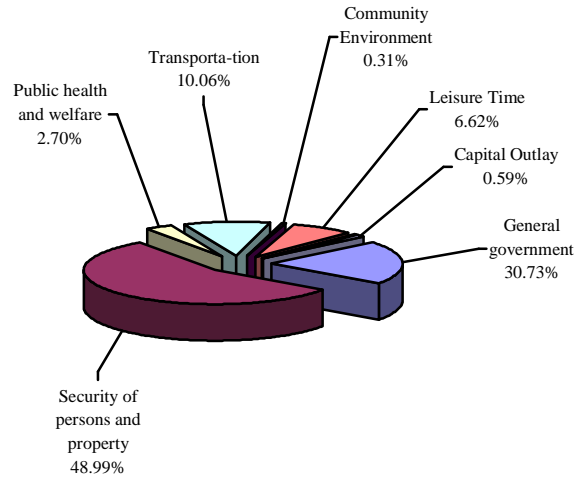
CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



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. During the course of fiscal year 2005, the City did modify its general fund budget. The final budget basis revenue was \$17,934,085, over the original budget estimates of \$13,484,817. Of this \$4,449,268 increase, most was attributable to an increase in transfers in. The final appropriations were \$18,491,780, over the original appropriations of \$14,243,336. Of this \$4,248,444 increase, most was attributable to an increase in general government expenditures and transfers out. Actual revenues and other financing sources of \$14,645,403 were lower than final budgeted revenues and other financing sources by \$3,288,682. Actual expenditures and other financing uses of \$15,373,796 came in \$3,117,984 less than the final budgeted amounts. The primary reason for revenues and expenditures ending up lower than the budgeted amounts was the elimination of a transfer in and out that occurred within the general fund.

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, 2005
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

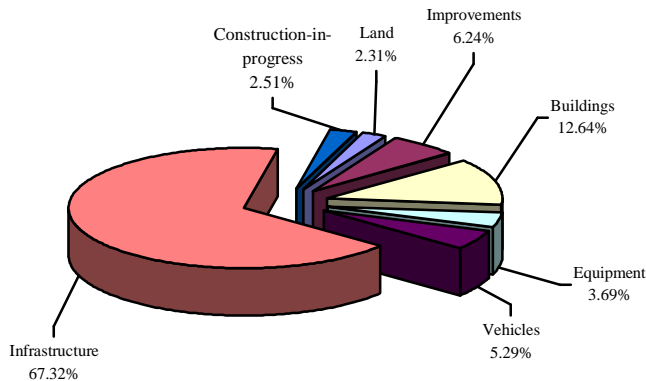
At the end of fiscal 2005, the City had \$34,356,874 (net of accumulated depreciation) invested in land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$12,820,572 was reported in governmental activities and \$21,536,302 was reported in business-type activities. The 2004 governmental activities have been restated as described in note 9.A of the notes to the financial statements. The following table shows fiscal 2005 balances compared to 2004:

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

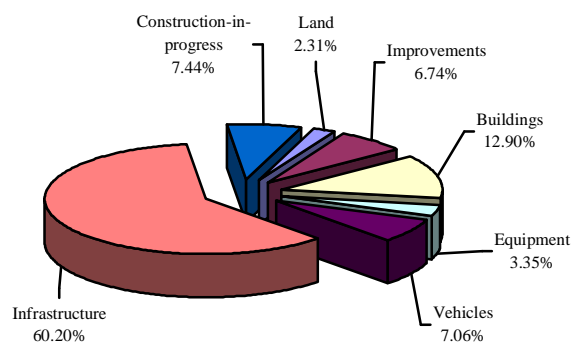
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>Restated 2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>Restated 2004</u>
Land	\$ 296,013	\$ 278,013	\$ 36,000	\$ 36,000	\$ 332,013	\$ 314,013
Construction-in-progress	321,650	584,702	5,912,442	5,123,524	6,234,092	5,708,226
Buildings	1,620,546	1,673,725	945,243	980,705	2,565,789	2,654,430
Improvements	799,973	809,302	21,362	21,799	821,335	831,101
Equipment	473,203	401,878	157,927	175,481	631,130	577,359
Vehicles	677,951	715,515	313,254	411,938	991,205	1,127,453
Infrastructure	8,631,236	6,756,251	14,150,074	13,003,272	22,781,310	19,759,523
Totals	\$ 12,820,572	\$ 11,219,386	\$ 21,536,302	\$ 19,752,719	\$ 34,356,874	\$ 30,972,105

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

Capital Assets - Governmental Activities 2005



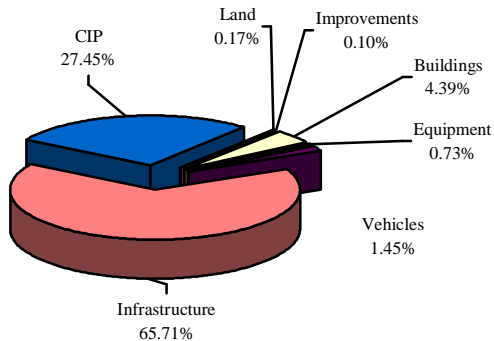
Capital Assets - Governmental Activities 2004



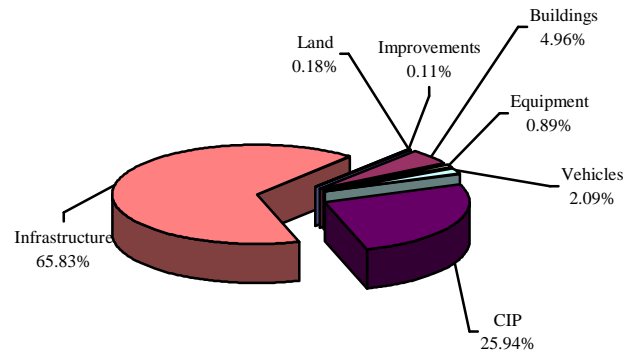
The City's largest capital asset category is infrastructure which includes roads constructed from 2003 through 2005, since the City is phasing-in the retroactive reporting of infrastructure. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.

CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

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 65.71% of the City's total business-type capital assets.

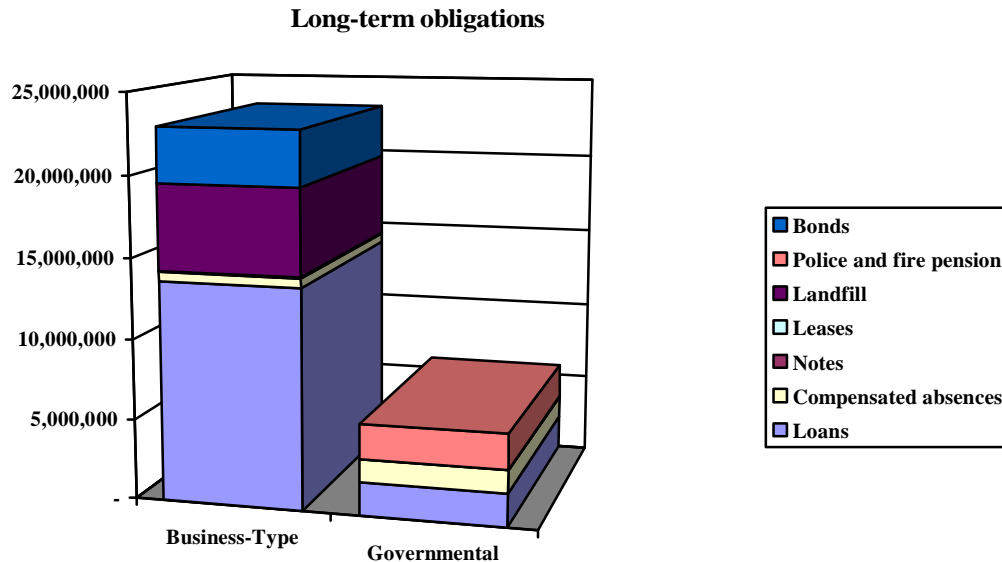
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004. Additional details are provided in Note 12 of the notes to the financial statements.

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Loans payable	\$ 2,076,248	\$ 1,568,226
Compensated absences	1,424,019	1,233,531
Capital lease obligation payable	22,790	21,878
Police and Fire Pension liability	<u>2,151,272</u>	<u>2,187,417</u>
Total long-term obligations	<u>\$ 5,674,329</u>	<u>\$ 5,011,052</u>
	Business-type Activities	
	<u>2005</u>	<u>2004</u>
Long-term notes payable	\$ 42,334	\$ 1,557,414
Capital lease obligation payable	29,495	38,439
OWDA Loans	12,914,181	14,004,785
OPWC Loans	581,206	631,040
Landfill Closure/Postclosure	5,285,723	5,347,032
Compensated absences	587,918	298,264
Loans payable	162,734	-
Bonds payable	<u>3,414,000</u>	<u>-</u>
Total long-term obligations	<u>\$ 23,017,591</u>	<u>\$ 21,876,974</u>

CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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 2005 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 2005 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, 2005

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,598,653	\$ 2,843,425	\$ 7,442,078
Receivables (net of allowances for uncollectibles):			
Income taxes	2,083,104	-	2,083,104
Real and other taxes	1,835,445	-	1,835,445
Accounts	33,955	1,104,721	1,138,676
Special assessments	164,029	-	164,029
Internal balances	2,183,308	(2,183,308)	-
Due from other governments	3,046,060	-	3,046,060
Prepayments	11,357	8,859	20,216
Materials and supplies inventory.	254,252	-	254,252
Capital assets:			
Land and construction-in-progress	617,663	5,948,442	6,566,105
Depreciable capital assets, net	12,202,909	15,587,860	27,790,769
Total capital assets, net	12,820,572	21,536,302	34,356,874
 Total assets.	 27,030,735	 23,309,999	 50,340,734
Liabilities:			
Accounts payable.	262,515	116,378	378,893
Contracts payable.	395,592	774,444	1,170,036
Accrued wages and benefits	282,310	92,215	374,525
Accrued vacation payable	472,624	244,134	716,758
Due to other governments	872,680	218,591	1,091,271
Deferred revenue.	1,443,130	-	1,443,130
Accrued interest payable.	34,148	13,041	47,189
Claims payable.	356,365	-	356,365
Long-term liabilities:			
Due within one year	474,225	1,706,724	2,180,949
Due in more than one year	5,200,104	21,310,867	26,510,971
 Total liabilities	 9,793,693	 24,476,394	 34,270,087
Net assets:			
Invested in capital assets, net of related debt	10,295,202	3,617,908	13,913,110
Restricted for:			
Capital projects.	6,064	-	6,064
Debt service	96,880	-	96,880
Street construction, maintenance and repairs.	1,206,031	-	1,206,031
Police and fire	16,172	-	16,172
Court computer.	79,110	-	79,110
Recreation	264,184	-	264,184
Community development.	1,496,213	-	1,496,213
Health programs	155,792	-	155,792
Safety programs	1,397,229	-	1,397,229
Other purposes	626,979	-	626,979
Unrestricted (deficit)	1,597,186	(4,784,303)	(3,187,117)
 Total net assets	 \$ 17,237,042	 \$ (1,166,395)	 \$ 16,070,647

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,643,118	\$ 1,162,228	\$ 136,491	\$ -
Security of persons and property.	7,039,478	-	9,401	156,930
Public health and welfare	552,773	116,747	-	-
Transportation	2,662,626	12,174	2,157,665	-
Community environment.	1,152,806	92,777	870,710	-
Leisure time activity.	1,330,663	150,299	125,482	-
Interest and fiscal charges.	157,898	-	-	-
Total governmental activities	<u>16,539,362</u>	<u>1,534,225</u>	<u>3,299,749</u>	<u>156,930</u>
Business-type Activities:				
Water	3,883,618	2,953,427	-	-
Sewer	2,926,004	3,303,677	-	-
Refuse.	1,566,337	1,558,520	-	-
Total business-type activities	<u>8,375,959</u>	<u>7,815,624</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 24,915,321</u>	<u>\$ 9,349,849</u>	<u>\$ 3,299,749</u>	<u>\$ 156,930</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Debt service	
Income taxed 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.	
Increase in net assets before transfers	
Transfers.	
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
\$ (2,344,399)	\$ -	\$ (2,344,399)
(6,873,147)	-	(6,873,147)
(436,026)	-	(436,026)
(492,787)	-	(492,787)
(189,319)	-	(189,319)
(1,054,882)	-	(1,054,882)
(157,898)	-	(157,898)
<u>(11,548,458)</u>	<u>-</u>	<u>(11,548,458)</u>
-	(930,191)	(930,191)
-	377,673	377,673
-	(7,817)	(7,817)
<u>-</u>	<u>(560,335)</u>	<u>(560,335)</u>
<u>(11,548,458)</u>	<u>(560,335)</u>	<u>(12,108,793)</u>
1,205,469	-	1,205,469
227,932	-	227,932
7,404,956	-	7,404,956
1,091,160	-	1,091,160
237,241	-	237,241
1,939,642	-	1,939,642
161,181	72,849	234,030
225,647	-	225,647
<u>12,493,228</u>	<u>72,849</u>	<u>12,566,077</u>
944,770	(487,486)	457,284
6,896	(6,896)	-
951,666	(494,382)	457,284
<u>16,285,376</u>	<u>(672,013)</u>	<u>15,613,363</u>
<u>\$ 17,237,042</u>	<u>\$ (1,166,395)</u>	<u>\$ 16,070,647</u>

CITY OF STEUBENVILLE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 217,505	\$ 4,151,483	\$ 4,368,988
Receivables (net of allowance for uncollectibles):			
Income taxes	2,036,237	46,867	2,083,104
Real and other taxes.	1,554,389	281,056	1,835,445
Accounts	33,955	-	33,955
Interfund loans	-	9,401	9,401
Special assessments.	-	164,029	164,029
Due from other funds	2,173,217	-	2,173,217
Due from other governments	1,131,190	1,914,870	3,046,060
Prepayments.	10,124	1,233	11,357
Materials and supplies inventory	85,000	169,252	254,252
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 7,241,617</u>	<u>\$ 6,738,191</u>	<u>\$ 13,979,808</u>
Liabilities:			
Accounts payable	\$ 112,376	\$ 150,139	\$ 262,515
Contracts payable	-	395,592	395,592
Accrued wages and benefits.	276,742	5,568	282,310
Compensated absences payable.	252,325	-	252,325
Interfund loan payable.	-	9,401	9,401
Due to other governments.	794,787	77,893	872,680
Claims payable	258,006	-	258,006
Deferred revenue	4,047,268	2,245,933	6,293,201
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>5,741,504</u>	<u>2,884,526</u>	<u>8,626,030</u>
Fund Balances:			
Reserved for encumbrances.	1,620,380	204,779	1,825,159
Reserved for prepayments	10,124	1,233	11,357
Reserved for materials and supplies inventory	85,000	169,252	254,252
Reserved for debt service.	-	37,683	37,683
Unreserved, undesignated (deficit), reported in:			
General fund.	(215,391)	-	(215,391)
Special revenue funds.	-	3,434,654	3,434,654
Capital projects funds.	-	6,064	6,064
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>1,500,113</u>	<u>3,853,665</u>	<u>5,353,778</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances.	<u>\$ 7,241,617</u>	<u>\$ 6,738,191</u>	<u>\$ 13,979,808</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, 2005

Total governmental fund balances		\$ 5,353,778
<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.		12,820,572
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 1,794,644	
Property taxes	383,321	
Intergovernmental revenues	2,508,077	
Special assessments	164,029	
Total		4,850,071
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 \$10,091, are:		141,397
In the statement of activities interest is accrued on outstanding loans and notes whereas in governmental funds, interest expenditures are reported when due.		(34,148)
In the statement of activities vacation is accrued for leave accrued whereas in governmental funds, vacation leave expenditures are reported when taken.		(472,624)
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	(1,171,694)	
Police and fire pension liability	(2,151,272)	
Loans payable	(2,076,248)	
Capital lease payable	(22,790)	
Total		(5,422,004)
Net assets of governmental activities		\$ 17,237,042

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, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 7,356,734	\$ 1,090,052	\$ 8,446,786
Property and other taxes	1,342,476	324,757	1,667,233
Charges for services	139,830	2,057	141,887
Licenses and permits	428,508	80,109	508,617
Fines and forfeitures	582,270	45,122	627,392
Intergovernmental	1,996,091	3,538,443	5,534,534
Special assessments	-	21,052	21,052
Investment income	144,510	14,243	158,753
Rental income	89,754	-	89,754
Other	184,659	40,988	225,647
Total revenues	<u>12,264,832</u>	<u>5,156,823</u>	<u>17,421,655</u>
Expenditures:			
Current:			
General government	3,068,939	488,265	3,557,204
Security of persons and property	7,024,264	31,898	7,056,162
Public health and welfare	450,214	91,236	541,450
Transportation	1,498,514	2,465,999	3,964,513
Community environment	49,641	1,093,043	1,142,684
Leisure time activity	1,081,458	193,632	1,275,090
Capital outlay	7,377	489,949	497,326
Debt service:			
Principal retirement	56,853	63,835	120,688
Interest and fiscal charges	97,412	38,891	136,303
Total expenditures	<u>13,334,672</u>	<u>4,956,748</u>	<u>18,291,420</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,069,840)</u>	<u>200,075</u>	<u>(869,765)</u>
Other financing sources (uses):			
Sale of capital assets	100	1,151	1,251
Issuance of loans	-	586,100	586,100
Transfers in	2,152,925	10,195	2,163,120
Transfers out	(3,299)	(2,152,925)	(2,156,224)
Capital lease transaction	7,377	-	7,377
Total other financing sources (uses)	<u>2,157,103</u>	<u>(1,555,479)</u>	<u>601,624</u>
Net change in fund balances	1,087,263	(1,355,404)	(268,141)
Fund balances at beginning of year	<u>412,850</u>	<u>5,209,069</u>	<u>5,621,919</u>
Fund balances at end of year	<u>\$ 1,500,113</u>	<u>\$ 3,853,665</u>	<u>\$ 5,353,778</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, 2005

Net change in fund balances - total governmental funds \$ (268,141)

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	\$	2,356,926	
Current year depreciation		(746,186)	
Total			1,610,740

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. (9,554)

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. (593,477)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 60,049

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. 120,688

In the statement of activities, interest is accrued on outstanding loans and notes, whereas in governmental funds, an interest expenditure is reported when due. (21,595)

In the statement of activities, vacation leave is accrued when earned, whereas in governmental funds, an expenditure is reported when vacation leave is taken. (12,546)

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 61,837

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 \$43,205, is allocated among the governmental activities. 3,665

Change in net assets of governmental activities \$ 951,666

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, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues:				
Municipal income taxes	\$ 8,146,060	\$ 7,323,864	\$ 7,355,057	\$ 31,193
Property and other taxes	1,199,487	1,343,248	1,337,230	(6,018)
Charges for services	118,356	143,810	229,584	85,774
Licenses and permits.	448,893	472,671	428,508	(44,163)
Fines and forfeitures.	189,367	528,876	582,270	53,394
Intergovernmental	1,743,893	1,868,041	1,854,734	(13,307)
Investment income	75,000	63,789	144,510	80,721
Rental income.	53,760	79,509	89,754	10,245
Other	1,010,011	1,570,023	470,731	(1,099,292)
Total revenues.	<u>12,984,827</u>	<u>13,393,831</u>	<u>12,492,378</u>	<u>(901,453)</u>
Expenditures:				
Current:				
General government	4,407,618	5,757,555	6,054,982	(297,427)
Security of persons and property	6,923,979	7,203,024	6,613,689	589,335
Public health and welfare.	501,634	508,701	405,608	103,093
Transportation	1,282,356	1,437,859	1,285,761	152,098
Community environment	130,403	131,515	47,754	83,761
Leisure time activity	977,283	1,064,518	945,471	119,047
Debt service:				
Principal retirement	14,244	14,244	14,244	-
Interest and fiscal charges	2,988	3,418	2,988	430
Total expenditures.	<u>14,240,505</u>	<u>16,120,834</u>	<u>15,370,497</u>	<u>750,337</u>
Deficiency of revenues under expenditures	<u>(1,255,678)</u>	<u>(2,727,003)</u>	<u>(2,878,119)</u>	<u>(151,116)</u>
Other financing sources (uses):				
Sale of capital assets.	22,990	22,990	100	(22,890)
Issuance of notes	77,000	-	-	-
Transfers in	400,000	4,517,264	2,152,925	(2,364,339)
Transfers out	(2,831)	(2,370,946)	(3,299)	2,367,647
Total other financing sources (uses).	<u>497,159</u>	<u>2,169,308</u>	<u>2,149,726</u>	<u>(19,582)</u>
Net change in fund balance	(758,519)	(557,695)	(728,393)	(170,698)
Fund balance at beginning of year	6,141	6,141	6,141	-
Prior year encumbrances appropriated	<u>891,728</u>	<u>891,728</u>	<u>891,728</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 139,350</u>	<u>\$ 340,174</u>	<u>\$ 169,476</u>	<u>\$ (170,698)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2005

	Business-type Activities -Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Refuse	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 2,128,373	\$ -	\$ 715,052	\$ 2,843,425	\$ 229,665
Receivables (net of allowance for uncollectibles):					
Accounts	390,818	552,197	161,706	1,104,721	-
Due from other funds	179,860	-	-	179,860	-
Prepayments	2,953	2,953	2,953	8,859	-
Total current assets	<u>2,702,004</u>	<u>555,150</u>	<u>879,711</u>	<u>4,136,865</u>	<u>229,665</u>
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	4,781,405	1,167,037	-	5,948,442	-
Depreciable capital assets, net	13,330,636	2,007,772	249,452	15,587,860	-
Total capital assets, net	<u>18,112,041</u>	<u>3,174,809</u>	<u>249,452</u>	<u>21,536,302</u>	<u>-</u>
Total noncurrent assets	<u>18,112,041</u>	<u>3,174,809</u>	<u>249,452</u>	<u>21,536,302</u>	<u>-</u>
Total assets	<u>20,814,045</u>	<u>3,729,959</u>	<u>1,129,163</u>	<u>25,673,167</u>	<u>229,665</u>
Liabilities:					
Current liabilities:					
Accounts payable	44,122	41,187	31,069	116,378	-
Contracts payable	721,758	52,686	-	774,444	-
Accrued wages and benefits	42,144	30,624	19,447	92,215	-
Due to other funds	126,329	2,014,623	212,125	2,353,077	-
Due to other governments	103,385	68,543	46,663	218,591	-
Accrued vacation payable	151,740	60,979	31,415	244,134	-
Accrued interest payable	5,275	7,766	-	13,041	-
Current portion of compensated absences	5,124	5,124	-	10,248	-
Current portion of OPWC loans	26,819	23,015	-	49,834	-
Current portion of OWDA loans	1,125,350	309,685	-	1,435,035	-
Current portion of bonds payable	130,534	37,482	-	168,016	-
Current portion of capital lease obligation	-	9,374	-	9,374	-
Current portion of notes payable	-	-	20,767	20,767	-
Current portion of loans payable	-	13,450	-	13,450	-
Claims payable	-	-	-	-	98,359
Total current liabilities	<u>2,482,580</u>	<u>2,674,538</u>	<u>361,486</u>	<u>5,518,604</u>	<u>98,359</u>
Long-term liabilities:					
Compensated absences	260,563	238,973	78,134	577,670	-
OPWC loans	347,252	184,120	-	531,372	-
OWDA loans	11,268,246	210,900	-	11,479,146	-
General obligation bonds payable	1,983,466	1,262,518	-	3,245,984	-
Notes payable	-	-	21,567	21,567	-
Loans payable	-	149,284	-	149,284	-
Capital lease obligation	-	20,121	-	20,121	-
Landfill closure/postclosure	-	-	5,285,723	5,285,723	-
Total long-term liabilities	<u>13,859,527</u>	<u>2,065,916</u>	<u>5,385,424</u>	<u>21,310,867</u>	<u>-</u>
Total liabilities	<u>16,342,107</u>	<u>4,740,454</u>	<u>5,746,910</u>	<u>26,829,471</u>	<u>98,359</u>
Net assets:					
Invested in capital assets, net of related debt	2,508,616	902,174	207,118	3,617,908	-
Unrestricted (deficit)	1,963,322	(1,912,669)	(4,824,865)	(4,774,212)	131,306
Total net assets	<u>\$ 4,471,938</u>	<u>\$ (1,010,495)</u>	<u>\$ (4,617,747)</u>	<u>(1,156,304)</u>	<u>\$ 131,306</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				(10,091)	
Net assets of business-type activities				<u>\$ (1,166,395)</u>	

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 2,885,992	\$ 3,241,928	\$ 1,545,112	\$ 7,673,032	\$ 1,856,532
Other	67,435	61,749	13,408	142,592	-
Total operating revenues	2,953,427	3,303,677	1,558,520	7,815,624	1,856,532
Operating expenses:					
Personal services	1,969,601	1,606,433	863,335	4,439,369	-
Contract services	293,206	59,123	423,048	775,377	-
Materials and supplies	322,629	716,849	224,272	1,263,750	-
Utilities	375,027	237,388	12,258	624,673	-
Depreciation and amortization	301,524	164,894	38,485	504,903	-
Other	107	-	-	107	-
Claims	-	-	-	-	1,898,500
Total operating expenses	3,262,094	2,784,687	1,561,398	7,608,179	1,898,500
Operating income (loss)	(308,667)	518,990	(2,878)	207,445	(41,968)
Nonoperating revenue (expenses):					
Interest revenue	72,849	-	-	72,849	2,428
Interest expense and fiscal charges	(601,426)	(121,691)	(1,458)	(724,575)	-
Total nonoperating revenues (expenses)	(528,577)	(121,691)	(1,458)	(651,726)	2,428
Income (loss) before transfers	(837,244)	397,299	(4,336)	(444,281)	(39,540)
Transfers out	-	(5,229)	(1,667)	(6,896)	-
Changes in net assets	(837,244)	392,070	(6,003)	(451,177)	(39,540)
Net assets at beginning of year	5,309,182	(1,402,565)	(4,611,744)		170,846
Net assets at end of year	\$ 4,471,938	\$ (1,010,495)	\$ (4,617,747)		\$ 131,306
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				(43,205)	
Changes in net assets of business-type activities				\$ (494,382)	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<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	\$ 3,813,430	\$ 2,899,139	\$ 1,487,200	\$ 8,199,769	\$ 1,856,532
Cash received from other operations	67,435	61,749	13,408	142,592	-
Cash payments for personal services	(1,853,552)	(1,359,373)	(766,523)	(3,979,448)	-
Cash payments for contract services.	(23,269)	(7,899)	(425,833)	(457,001)	-
Cash payments for materials and supplies.	(322,305)	(583,788)	(99,810)	(1,005,903)	-
Cash payments for utilities	(375,027)	(237,388)	(12,258)	(624,673)	-
Cash payments for other expenses	(107)	-	-	(107)	-
Cash payments for claims.	-	-	-	-	(1,966,313)
Net cash provided by (used in) operating activities	<u>1,306,605</u>	<u>772,440</u>	<u>196,184</u>	<u>2,275,229</u>	<u>(109,781)</u>
Cash flows from noncapital financing activities:					
Cash received from interfund loans.	-	1,798,735	-	1,798,735	-
Cash used in repayment of interfund loans	-	(2,239,589)	-	(2,239,589)	-
Cash payments for transfers out.	-	(5,229)	(1,667)	(6,896)	-
Net cash used in noncapital financing activities	<u>-</u>	<u>(446,083)</u>	<u>(1,667)</u>	<u>(447,750)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets.	(2,835,947)	(137,100)	-	(2,973,047)	-
Landfill closure/postclosure expenses	-	-	(61,309)	(61,309)	-
Principal retirement on OPWC loans.	(26,819)	(23,015)	-	(49,834)	-
Principal retirement on OWDA loans.	(1,087,056)	(299,963)	-	(1,387,019)	-
Principal retirement on loans	-	(3,266)	-	(3,266)	-
Principal retirement on notes	(1,059,000)	(1,200,000)	(15,080)	(2,274,080)	-
Principal retirement on lease	-	(8,944)	-	(8,944)	-
Principal retirement on general obligation bonds	(65,000)	-	-	(65,000)	-
Loan issuance	296,415	166,000	-	462,415	-
Note issuance	759,000	-	-	759,000	-
Bond issuance.	2,179,000	1,300,000	-	3,479,000	-
Interest and fiscal charges.	(597,611)	(120,069)	(1,458)	(719,138)	-
Net cash used in capital and related financing activities	<u>(2,437,018)</u>	<u>(326,357)</u>	<u>(77,847)</u>	<u>(2,841,222)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	72,849	-	-	72,849	2,428
Net cash provided by investing activities	<u>72,849</u>	<u>-</u>	<u>-</u>	<u>72,849</u>	<u>2,428</u>
Net increase (decrease) in cash and cash equivalents	(1,057,564)	-	116,670	(940,894)	(107,353)
Cash and cash equivalents at beginning of year	<u>3,185,937</u>	<u>-</u>	<u>598,382</u>	<u>3,784,319</u>	<u>337,018</u>
Cash and cash equivalents at end of year.	<u>\$ 2,128,373</u>	<u>\$ -</u>	<u>\$ 715,052</u>	<u>\$ 2,843,425</u>	<u>\$ 229,665</u>

- - continued

CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<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)	\$ (308,667)	\$ 518,990	\$ (2,878)	\$ 207,445	\$ (41,968)
Adjustments:					
Depreciation and amortization.	301,524	164,894	38,485	504,903	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	927,438	(342,789)	(57,912)	526,737	-
Increase in due from other funds	(179,860)	-	-	(179,860)	-
Decrease in prepayments	70	70	70	210	-
Increase (decrease) in accounts payable.	(1,182)	6,768	(5,481)	105	-
Increase in contracts payable	266,068	47,164	-	313,232	-
Increase in accrued wages and benefits	5,386	9,069	1,606	16,061	-
Increase in compensated absences payable.	116,043	149,436	24,175	289,654	-
Increase (decrease) in accrued vacation payable.	56,484	3,044	(9,137)	50,391	-
Increase in due to other funds	126,329	215,888	212,125	554,342	-
Decrease in due to other governments.	(3,028)	(94)	(4,869)	(7,991)	-
Decrease in claims payable	-	-	-	-	(67,813)
Net cash provided by (used in) operating activities . . .	<u>\$ 1,306,605</u>	<u>\$ 772,440</u>	<u>\$ 196,184</u>	<u>\$ 2,275,229</u>	<u>\$ (109,781)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
DECEMBER 31, 2005**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 245,881
Cash in segregated accounts	<u>21,236</u>
Total assets.	<u>\$ 267,117</u>
Liabilities:	
Undistributed monies	\$ 21,236
Deposits held and due to others.	<u>245,881</u>
Total liabilities	<u>\$ 267,117</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, 2005

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, 2005

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 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, 2005

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 is the City's major governmental fund:

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

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; (b) for grants and other resources whose use is restricted to a particular purpose; and (c) for the accumulation of resources for and payment of long-term liabilities.

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 is the City's major enterprise fund:

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

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents 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.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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 accrual. 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 account 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 7.B.). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7.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, 2005

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, 2005, but which were levied to finance year 2006 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, 2005

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 represent 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 2005, 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 2005, interest revenue credited to the general fund amounted to \$144,510 which includes \$102,366 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 5.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 through 2005 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, 2005

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 may not be accrued 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, 2005**

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.

N. Interfund Balances

On fund financial statements, interfund loans are classified as “due to/from other funds” on the balance sheet. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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, debt service, 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, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires the government to report the effect of capital asset impairment when it occurs and to account for insurance recoveries in a similar manner. The implementation of this statement has made no impact on the City’s financial reporting or results of financial position for 2005.

B. Restatement of Net Assets

The City has presented a prior period adjustment to net assets to correct governmental activities capital assets reported as of December 31, 2004. See Note 9 for details regarding the affects on capital assets, which include removing maintenance items previously capitalized. The following is the affect on net assets previously reported as of December 31, 2004:

	Governmental Activities
Net Assets, December 31, 2004	\$ 17,353,098
Adjustment for capital assets	(1,067,722)
Restated net assets, December 31, 2004	\$ 16,285,376

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances

The following funds had deficit fund balances/net assets as of December 31, 2005:

<u>Major Funds</u>	
Sewer	\$ 1,010,495
Refuse	4,617,747
 <u>Nonmajor Fund</u>	
Law Enforcement Trust	9,401
Summer Food Program	1,018
Community Development	24,354

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 has increased fees beginning 2006. 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 17.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE – (Continued)

B. Legal Compliance

Contrary to Ohio Revised Code Section 5705.10, the City had a negative cash balances during the year in numerous funds, and in the sewer enterprise fund at year-end in the amount of \$1,798,735. For GAAP purposes, this amount has been reported as fund liability (see Note 6.B.).

Contrary to Ohio Revised Code Section 5705.41(D), the City did not properly certify or record the amount against the applicable appropriation accounts for 63% of tested expenditures in 2005.

Contrary to Ohio Rev. Code Section 5705.36, the City failed to send its amended certificate ordinances to the County Auditor so the County could provide them with an amended certificate.

Contrary to Ohio Rev. Code Section 5705.38, the City failed to submit its quarterly appropriations ordinances to the County Auditor.

NOTE 5 - 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;

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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;
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.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal interest, or coupons; and,
3. Obligations of the City.

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 \$21,236 deposited with a financial institution for monies related to the Mayor's Court which is reported as an agency fund. These amounts are not included in the City's depository balance below.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all City deposits was \$7,687,959. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$7,034,099 of the City's bank balance of \$7,697,890 was exposed to custodial risk as discussed below, while \$663,791 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.

C. 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, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,687,959
Cash in segregated accounts	<u>21,236</u>
Total	<u>\$ 7,709,195</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,598,653
Business type activities	2,843,425
Agency funds	<u>267,117</u>
Total	<u>\$ 7,709,195</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to General Fund From:	
Debt Service fund	<u>\$ 2,152,925</u>
Total Transfers to General Fund	<u>2,152,925</u>
Transfers to Nonmajor Governmental Funds from:	
General fund	3,299
Sewer fund	5,229
Refuse fund	<u>1,667</u>
Total Transfers to Nonmajor Governmental Funds	<u>10,195</u>
Total Transfers	<u><u>\$ 2,163,120</u></u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer assets remaining in the general bond retirement debt service fund to the general fund.

- B.** Due to/from other funds consisted for the following at December 31, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 126,329
General	Sewer	1,834,763
General	Refuse	212,125
Water	Sewer	<u>179,860</u>
Total due to/from other funds		<u><u>\$ 2,353,077</u></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.

- C.** Interfund loans consisted of the following, as reported on the fund financial statements at December 31, 2005:

<u>Due to Nonmajor governmental</u>	
Nonmajor governmental fund	<u><u>\$ 9,401</u></u>

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by December 31. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - 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, 2005 was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real property tax	\$ 206,563,940
Public utility tangible personal property	13,235,020
Tangible personal property	<u>31,607,557</u>
Total	<u>\$ 251,406,517</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, 2005, 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 2005 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.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 - TAXES - (Continued)

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 8 - RECEIVABLES

Receivables at December 31, 2005, 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, 2005, as well as intended to finance fiscal 2005 operations.

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

Governmental Activities:

Income taxes	\$2,083,104
Real and other taxes	1,835,445
Accounts	33,955
Special assessments	164,029
Intergovernmental	3,046,060

Business-type Activities:

Accounts	1,104,721
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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, 2005

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to errors in the amounts reported in the prior year. The restatement of governmental activities net assets is detailed in Note 3.B.

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/04</u>
Land	\$ 278,013	\$ -	\$ 278,013
Construction in Progress	1,045,398	(460,696)	584,702
Buildings	2,776,366	-	2,776,366
Improvements	1,504,337	-	1,504,337
Machinery and equipment	720,394	-	720,394
Vehicles	3,453,566	(346,485)	3,107,081
Infrastructure	7,556,667	(501,765)	7,054,902
Less: accumulated depreciation	<u>(5,047,633)</u>	<u>241,224</u>	<u>(4,806,409)</u>
Total	<u>\$ 12,287,108</u>	<u>\$ (1,067,722)</u>	<u>\$ 11,219,386</u>

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CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Governmental Activities:</u>	<u>Restated Balance 12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 278,013	\$ 18,000	\$ -	\$ 296,013
Construction in progress	<u>584,702</u>	<u>321,650</u>	<u>(584,702)</u>	<u>321,650</u>
Total capital assets, not being depreciated	<u>862,715</u>	<u>339,650</u>	<u>(584,702)</u>	<u>617,663</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,776,366	-	-	2,776,366
Improvements	1,504,337	64,026	-	1,568,363
Equipment	720,394	125,887	-	846,281
Vehicles	3,107,081	111,433	(74,960)	3,143,554
Infrastructure	<u>7,054,902</u>	<u>2,300,632</u>	<u>-</u>	<u>9,355,534</u>
Total capital assets, being depreciated	<u>15,163,080</u>	<u>2,601,978</u>	<u>(74,960)</u>	<u>17,690,098</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(1,102,641)	(53,179)	-	(1,155,820)
Improvements	(695,035)	(73,355)	-	(768,390)
Equipment	(318,516)	(54,562)	-	(373,078)
Vehicles	(2,391,566)	(139,443)	65,406	(2,465,603)
Infrastructure	<u>(298,651)</u>	<u>(425,647)</u>	<u>-</u>	<u>(724,298)</u>
Total accumulated depreciation	<u>(4,806,409)</u>	<u>(746,186)</u>	<u>65,406</u>	<u>(5,487,189)</u>
Total capital assets, being depreciated, net	<u>10,356,671</u>	<u>1,855,792</u>	<u>(9,554)</u>	<u>12,202,909</u>
Governmental activities capital assets, net	<u>\$ 11,219,386</u>	<u>\$ 2,195,442</u>	<u>\$ (594,256)</u>	<u>\$ 12,820,572</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	<u>5,123,524</u>	<u>1,392,799</u>	<u>(603,881)</u>	<u>5,912,442</u>
Total capital assets, not being depreciated	<u>5,159,524</u>	<u>1,392,799</u>	<u>(603,881)</u>	<u>5,948,442</u>
<i>Capital assets, being depreciated:</i>				
Buildings	5,980,324	77,357	-	6,057,681
Improvements	21,835	-	-	21,835
Equipment	249,630	-	-	249,630
Vehicles	1,284,192	-	-	1,284,192
Infrastructure	<u>13,252,826</u>	<u>1,422,211</u>	<u>-</u>	<u>14,675,037</u>
Total capital assets, being depreciated	<u>20,788,807</u>	<u>1,499,568</u>	<u>-</u>	<u>22,288,375</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(4,999,619)	(112,819)	-	(5,112,438)
Improvements	(36)	(437)	-	(473)
Equipment	(74,149)	(17,554)	-	(91,703)
Vehicles	(872,254)	(98,684)	-	(970,938)
Infrastructure	<u>(249,554)</u>	<u>(275,409)</u>	<u>-</u>	<u>(524,963)</u>
Total accumulated depreciation	<u>(6,195,612)</u>	<u>(504,903)</u>	<u>-</u>	<u>(6,700,515)</u>
Total capital assets, being depreciated, net	<u>14,593,195</u>	<u>994,665</u>	<u>-</u>	<u>15,587,860</u>
Business-type activities capital assets, net	<u>\$19,752,719</u>	<u>\$ 2,387,464</u>	<u>\$ (603,881)</u>	<u>\$ 21,536,302</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 143,779
Security of persons and property	89,734
Transportation	1,292
Public health and welfare	418,021
Leisure time activity	<u>93,360</u>
Total depreciation expense - governmental activities	<u>\$ 746,186</u>

Business-type activities

Water	\$ 301,524
Sewer	164,894
Refuse	<u>38,485</u>
Total depreciation expense - business-type activities	<u>\$ 504,903</u>

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. 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, 2005 was \$1,528,240.

B. Early Retirement Incentive Plan

The City has approved an early retirement incentive plan ("ERIP") for all city employees. The City will purchase, from OPERS, additional service credit for those employees who elect to participate in the plan. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the City, and agreed to retire at the end of fiscal year 2005. The enrollment period for the plan was between July 25, 2005 and September 30, 2006. The credit could not exceed the lesser of three years or one-fifth of each member's total Ohio service. The City did not limit the number of employees participating in the plan in any one year. The total liability for the plan remaining at December 31, 2005 was \$526,848. The liability is recorded in the respective funds from which the employee was paid as part of compensated absences payable.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - LEASES

A. Governmental Capital Leases - Lessee Disclosure

During 2005, the City entered into a capitalized lease agreement for office equipment. In a prior year, 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 equipment have been capitalized in the statement of net assets in the amount of \$33,778. 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 2005 totaled \$6,465 paid by the general fund.

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, 2005:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2006	\$ 9,217
2007	7,617
2008	6,474
2009	1,825
2010	<u>913</u>
Total	26,046
Less: amount representing interest	<u>(3,256)</u>
Present value of net minimum lease payments	<u>\$ 22,790</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 2005 totaled \$8,944.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - 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, 2005:

<u>Year Ended December 31,</u>	<u>Amount</u>
2006	\$ 10,665
2007	10,665
2008	<u>10,665</u>
Total	31,995
Less: amount representing interest	<u>(2,500)</u>
Present value of net minimum lease payments	<u>\$ 29,495</u>

NOTE 12 - LONG-TERM OBLIGATIONS

A. During 2005, the following changes occurred in governmental activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Amounts Due in One Year</u>
<u>Loans:</u>						
State Rt. 22 (ODOT)	0%	\$ 344,931	\$ -	\$ -	\$ 344,931	\$ 150,000
State Rt. 22 (ODOT)	0%	91,215	-	-	91,215	37,752
Sunset Blvd (ODOT)	3.00%	958,984	-	(32,459)	926,525	33,522
Phone System Loan	4.38%	73,535	-	(14,243)	59,292	14,878
Electrical Truck Loan	3.75%	99,561	-	(19,797)	79,764	20,573
Route 43 Project	4.69%	-	586,100	(11,579)	574,521	47,690
Total loans		<u>1,568,226</u>	<u>586,100</u>	<u>(78,078)</u>	<u>2,076,248</u>	<u>304,415</u>
<u>Other long-term liabilities:</u>						
Police and Fire pension liability		2,187,417	-	(36,145)	2,151,272	37,697
Capital lease obligation		21,878	7,377	(6,465)	22,790	7,640
Compensated absences		<u>1,233,531</u>	<u>325,975</u>	<u>(135,487)</u>	<u>1,424,019</u>	<u>124,473</u>
Total other long-term liabilities		<u>3,442,826</u>	<u>333,352</u>	<u>(178,097)</u>	<u>3,598,081</u>	<u>169,810</u>
Total governmental activities long-term liabilities		<u>\$ 5,011,052</u>	<u>\$ 919,452</u>	<u>\$ (256,175)</u>	<u>\$ 5,674,329</u>	<u>\$ 474,225</u>

ODOT Loans - In prior years, 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.

Route 43 Project Loan - During 2005, the City issued a loan for the Route 43 construction project. The loan matures in 2015 and is funded by motor vehicle tax revenues.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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 \$14,243 were made during 2005. 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. Principal payments of \$19,797 were made during 2005. 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 11.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.

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

Year	ODOT - Loans			Route 43 Loan		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 221,274	\$ 27,546	\$ 248,820	\$ 47,690	\$ 26,140	\$ 73,830
2007	128,499	26,532	155,031	49,965	23,863	73,828
2008	129,631	25,485	155,116	52,350	21,478	73,828
2009	97,570	24,404	121,974	54,849	18,980	73,829
2010	38,137	23,287	61,424	57,467	13,362	70,829
2011 - 2015	210,266	98,361	308,627	312,200	40,811	353,011
2016 - 2020	247,042	64,412	311,454	-	-	-
2021 - 2025	290,252	24,525	314,777	-	-	-
Totals	<u>\$ 1,362,671</u>	<u>\$ 314,552</u>	<u>\$ 1,677,223</u>	<u>\$ 574,521</u>	<u>\$ 144,634</u>	<u>\$ 719,155</u>

Year	Equipment Loans			Police & Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 35,451	\$ 5,096	\$ 40,547	\$ 37,697	\$ 91,032	\$ 128,729
2007	36,906	3,639	40,545	39,316	89,414	128,730
2008	38,417	2,128	40,545	41,004	87,725	128,729
2009	28,282	551	28,833	42,767	85,964	128,731
2010	-	-	-	44,603	84,127	128,730
2011 - 2015	-	-	-	253,451	390,198	643,649
2016 - 2020	-	-	-	312,761	330,888	643,649
2021 - 2025	-	-	-	385,953	257,695	643,648
2026 - 2030	-	-	-	476,272	167,576	643,848
2031 - 2035	-	-	-	517,448	56,045	573,493
Totals	<u>\$ 139,056</u>	<u>\$ 11,414</u>	<u>\$ 150,470</u>	<u>\$ 2,151,272</u>	<u>\$ 1,640,664</u>	<u>\$ 3,791,936</u>

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2005, the following changes occurred in the business-type activities long-term obligations:

	<u>Interest Rate</u>	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/05</u>	<u>Amount Due in One Year</u>
<u>OWDA loans:</u>						
Sewer - OWDA #3495	3.20%	\$ 596,050	\$ -	\$ (286,032)	\$ 310,018	\$ 295,258
Sewer - OWDA #3868	3.53%	224,498	-	(13,931)	210,567	14,427
Water - OWDA #3441	3.90%	7,414,544	5,000	(308,186)	7,111,358	320,323
Water - OWDA #3459	3.20%	1,324,333	-	(346,348)	977,985	357,520
Water - OWDA #3686	3.95%	3,526,005	291,415	(135,429)	3,681,991	140,831
Water - OWDA #3734	3.20%	919,355	-	(297,093)	622,262	306,676
Total OWDA loans		<u>14,004,785</u>	<u>296,415</u>	<u>(1,387,019)</u>	<u>12,914,181</u>	<u>1,435,035</u>
<u>OPWC loans:</u>						
Sewer - OPWC #CN28D	0.00%	230,150	-	(23,015)	207,135	23,015
Water - OPWC #CN523	0.00%	64,596	-	(5,872)	58,724	5,872
Water - OPWC #CN729	0.00%	75,728	-	(6,058)	69,670	6,058
Water - OPWC #CN038	0.00%	260,566	-	(14,889)	245,677	14,889
Total OPWC loans		<u>631,040</u>	<u>-</u>	<u>(49,834)</u>	<u>581,206</u>	<u>49,834</u>
<u>Loan:</u>						
Sewer Improvement	4.60%	-	166,000	(3,266)	162,734	13,450
Total Loan		<u>-</u>	<u>166,000</u>	<u>(3,266)</u>	<u>162,734</u>	<u>13,450</u>
<u>General obligation notes:</u>						
Refuse - garbage packer	3.71%	57,414	-	(15,080)	42,334	20,767
Water improvements	5.84%	300,000	-	(300,000)	-	-
Sewer improvements	5.84%	1,200,000	-	(1,200,000)	-	-
Water improvements		-	759,000	(759,000)	-	-
Total general obligation notes		<u>1,557,414</u>	<u>759,000</u>	<u>(2,274,080)</u>	<u>42,334</u>	<u>20,767</u>
<u>General Obligation Bonds:</u>						
Water Improvement Bonds	4.30%	-	1,120,000	(65,000)	1,055,000	100,000
Water Improvement Bonds	5.45%	-	1,059,000	-	1,059,000	30,534
Sewer Improvement Bonds	5.45%	-	1,300,000	-	1,300,000	37,482
Total general obligations bonds		<u>-</u>	<u>3,479,000</u>	<u>(65,000)</u>	<u>3,414,000</u>	<u>168,016</u>
<u>Other long-term liabilities:</u>						
Capital lease obligation	4.75%	38,439	-	(8,944)	29,495	9,374
Compensated absences	n/a	298,264	382,985	(93,331)	587,918	10,248
Landfill closure/postclosure	n/a	5,347,032	-	(61,309)	5,285,723	-
Total other long-term liabilities		<u>5,683,735</u>	<u>382,985</u>	<u>(163,584)</u>	<u>5,903,136</u>	<u>19,622</u>
Total business-type long-term obligations		<u>\$ 21,876,974</u>	<u>\$ 5,083,400</u>	<u>\$ (3,942,783)</u>	<u>\$ 23,017,591</u>	<u>\$ 1,706,724</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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, 2005, the City has outstanding borrowings of \$12,914,181. 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, 2005. Future annual debt service principal and interest requirements for these loans reflect the full amount of the amount to be financed, which is \$14,610,432 as of December 31, 2005.

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 \$11,507. This loan is used as a line-of credit and disbursements are made as funds are needed and are not closed. As of December 31, 2005, the City has received \$230,150, and made principal payments of \$23,015. 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. The City made principal payments of \$26,819 on the water improvement OPWC loan. There is no interest on these loans.

Loan - During 2005 the City issued a loan to fund the construction of sewer lines for \$126,000 and an emergency sewer project for \$40,000, totaling \$166,000. The loan matures in 2015 and will be repaid using user charges collected by the Sewer fund.

General Obligation Notes - During a prior year the City issued a note in the Refuse fund to finance the purchase of a garbage packer. This note matures in 2007 and has an interest rate of 3.71%. The Water and Sewer fund notes matured during 2005 and were retired with bonds.

General Obligation Bonds - During 2005 the City issued bonds for water and sewer improvements in the amount of \$2,359,000 and \$1,120,000. A portion of the bonds retired notes which matured during 2005. The Bonds will be retired with user charges in the water and sewer funds.

Landfill Closure/Postclosure Liability - See Note 17 for landfill information.

Capital Lease Obligation - See Note 11.B. for lease details.

Compensated Absences - Compensated absences consist of severance liability and early retirement incentive. These liabilities will be paid from the respective funds as they come due.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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
2006	\$ 49,834	\$ -	\$ 49,834	\$ 1,435,035	\$ 537,424	\$ 1,972,459
2007	49,834	-	49,834	1,484,729	487,730	1,972,459
2008	49,834	-	49,834	1,371,474	436,296	1,807,770
2009	49,834	-	49,834	695,157	394,137	1,089,294
2010	49,834	-	49,834	555,118	370,507	925,625
2011 - 2015	226,159	-	226,159	3,121,591	1,506,526	4,628,117
2016 - 2020	83,535	-	83,535	3,787,340	840,780	4,628,120
2021 - 2024	22,342	-	22,342	2,159,988	135,763	2,295,751
Totals	<u>\$ 581,206</u>	<u>\$ -</u>	<u>\$ 581,206</u>	<u>\$ 14,610,432</u>	<u>\$ 4,709,163</u>	<u>\$ 19,319,595</u>

Year	Bonds			Sewer Loan		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 168,016	\$ 173,255	\$ 341,271	\$ 13,450	\$ 7,373	\$ 20,823
2007	176,723	165,100	341,823	14,093	6,731	20,824
2008	180,632	156,744	337,376	14,765	6,058	20,823
2009	189,754	147,958	337,712	15,470	5,353	20,823
2010	199,100	138,839	337,939	16,209	4,615	20,824
2011 - 2015	1,014,458	540,731	1,555,189	88,747	10,842	99,589
2016 - 2020	644,707	338,201	982,908	-	-	-
2021 - 2025	840,610	142,296	982,906	-	-	-
Totals	<u>\$ 3,414,000</u>	<u>\$ 1,803,124</u>	<u>\$ 5,217,124</u>	<u>\$ 162,734</u>	<u>\$ 40,972</u>	<u>\$ 203,706</u>

Refuse Garbage Packer Note			
Year	Principal	Interest	Total
2006	\$ 20,767	\$ 1,282	\$ 22,049
2007	21,567	505	22,072
Totals	<u>\$ 42,334</u>	<u>\$ 1,787</u>	<u>\$ 44,121</u>

- 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, 2005, the City's total debt margin was \$26,435,367, and the unvoted debt margin was \$13,865,041 both amounts include available funds of \$37,683.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13 - 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, 2005, is estimated by the third party administrator at \$98,359. The changes in the claims liability for 2005 and 2004 were as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 166,172	\$ 1,898,500	\$(1,966,313)	\$ 98,359
2004	131,804	2,149,926	(2,115,558)	166,172

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 13 - RISK MANAGEMENT - (Continued)

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 15. As such, no funding provisions are required by the City.

NOTE 14 - 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.

For the year ended December 31, 2005, 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 2005 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.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$913,407, \$809,299, and \$791,388, respectively; 99% has been contributed for 2005 and 100% has been contributed for 2004 and 2003. The unpaid portion for 2005 of \$413 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 2005.

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 \$948,340, \$891,181 and \$899,727 for the years ended December 31, 2005, 2004, and 2003, respectively. The full amount has been contributed for 2004 and 2003. 75% has been contributed for police and firefighters for 2005 with the remainder of \$218,361 being reported as a liability in the respective funds.

NOTE 15 - 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 2005 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.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS'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 1.00% and 6.00% annually for the next eight years and 4.00% annually after nine years.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 376,109 as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund post employment benefits were \$269,640. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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's 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.

The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post employment 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 post employment health care program during 2005. 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 2005 that were used to fund post employment benefits was \$180,684 for police and \$159,309 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 16 - 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.

Net Change in Fund Balance	
	<u>General</u>
Budget basis	\$ (728,393)
Net adjustment for revenue accruals	(235,546)
Net adjustment for expenditure accruals	193,781
Net adjustment for other sources/uses	10,657
Adjustment for encumbrances	<u>1,846,764</u>
GAAP basis	<u>\$1,087,263</u>

NOTE 17 - 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. At December 31, 2004 the landfill outstanding balance was \$5,347,032. Expenses in the amount of \$61,309 were made during 2005, which decreased the estimated liability to \$5,285,723.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 18 - 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 12.

NOTE 19 - 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, 2005.

B. Litigation

The City has been named in various lawsuits, however, according to the City's legal counsel pending litigation will not have a material effect, if any, on the financial condition of the City. A lawsuit involving traffic tickets issued by the City was settled subsequent to year-end and resulted in a liability for the City of \$258,006, which appears as claims payable in the fund financial statements. 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.

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

August 1, 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 1, 2006, which was qualified as we were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. 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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 2005-005.

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. 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. However, we consider the reportable condition 2005-005 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 August 1, 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*
August 1, 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 2005-001 through 2005-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 1, 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

August 1, 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, 2005. 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.

As described in item 2005-006 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding reporting requirements that are applicable to its Summer Food Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2005. However, we noted a certain instance of noncompliance that we have reported to management of the City in a separate letter dated August 1, 2006.

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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-007.

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. Our consideration of the internal control over compliance 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. However, we consider the reportable condition 2005-007 described above to be a material weakness. We also noted other matters involving internal control over compliance and operations that we have reported to management of the City in a separate letter dated August 1, 2006.

Schedule of Expenditures of Federal Awards

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 as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 1, 2006, which was qualified as were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

Rea & Associates, Inc.

CITY OF STEUBENVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

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	B04-MC-39-0020	\$ 773,804
Community Development Block Grant Entitlement Grants	14.218	B05-MC-39-0020	773,804
Total Entitlement Grants			773,804
Passed-Through State Department of Development Community Housing Improvement Program	14.239	M-97-SG-39-0151	132,250
Total U.S. Department of Housing and Urban Development			906,054
<u>U.S. Department of Agriculture:</u>			
Passed-Through State Department of Education:			
Summer Food Program	10.559		145,829
Total U.S. Department of Agriculture			145,829
<u>U.S. Department of Transportation:</u>			
Passed-Through Ohio Department of Transportation:			
Highway Planning and Construction	20.205	JEF SR0043 2.80	559,488
Highway Planning and Construction	20.205	JEF SR 7 15.000	136,204
Highway Planning and Construction	20.205	JEF SR 43 1.780	27,500
Total U.S. Department of Transportation			723,192
<u>Federal Emergency Management Agency:</u>			
Pass-Through Ohio Emergency Management Agency			
Public Assistance Grant	97.036	FEMA-1580-DR-081-74608	94,143
Public Assistance Grant	97.036	FEMA-1556-DR-081-74608	29,198
Public Assistance Grant	97.036	FEMA-1519-DR-081-74608	16,803
Total Public Assistance Grants			140,144
Direct Award			
Assistance to Firefighters Grant Program	97.044	EMW-2003-FG-12306	214,077
Total Assistance to Firefighters Grant Programs			214,077
Total U.S. Department of Homeland Security			354,221
<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-03	602
Total U.S. Department of Health and Human Services			602
Total Federal Financial Assistance			\$ 2,129,898

CITY OF STEUBENVILLE
JEFFERSON COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005

1. SUMMARY OF AUDITOR'S RESULTS

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?	Yes
(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 CFDA # 20.205 Highway Planning and Construction CFDA # 97.044 Assistance to Firefighters Grant CFDA # 10.559 Summer Food Service Program for Children	Unqualified Unqualified Qualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	Yes
(d) (1) (vii)	Major Programs (list): Highway Planning and Construction Assistance to Firefighters Grant Summer Food Service Program for Children	CFDA # 20.205 97.044 10.559
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

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

Non-Compliance Citations

Finding Number	2005-001
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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 2005:

General Fund (01): April - \$99,844; May - \$98,371; June - \$19,275; July - \$71,207; August - \$301,721; September - \$776,569; October - \$576,282

Law Enforcement Trust Fund (18): August - \$11,071; September - \$9,401; October - \$9,401

Motor Vehicle License Fund (35): June - \$89,088

Sewer Fund (51): January - \$2,175,972; February - \$2,093,688; March - 2,051,249; April - \$1,986,410; May - \$1,911,632; June - \$2,001,147; July - \$1,882,981; August - \$1,836,655; September - \$1,794,804; October - \$1,671,059; November - \$2,286,752; December - \$2,029,455

City's Response: See Corrective Action Plan.

Finding Number	2005-002
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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 fiscal year 2005, Council passed amended certificate ordinances but the City failed to send this information to the County Auditor so the County could provide them with an amended certificate.

City's Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-003
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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 3/29/05 (Ord. No. 2005-29). The City Council did approve quarterly appropriations amendments, however, these were not submitted to the County Auditor as required.

City's Response: See Corrective Action Plan.

Finding Number	2005-004
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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.

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.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-004 (Continued)
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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 38 of 60 (63%) of tested expenditures in 2005. In addition, 6 of 13 (46%) of Assistance to Firefighters grant 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's Response: See Corrective Action Plan.

Finding Number	2005-005
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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.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-005 (Continued)
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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.

City's Response: See Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2005-006
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Material Weakness

Program Information:

CFDA #10.559 – Summer Food Program
U.S. Department of Agriculture
Passed through Ohio Department of Education

Criteria:

To receive reimbursement payments for meals served, a sponsor must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). At a minimum, a claim must include the number of reimbursable meals served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

Condition:

Meal counts used for grant fund reimbursements can not be verified to supporting count sheets and weekly summaries for the various food service sights. There are deficiencies in form completion, monitoring reviews, and supervisory reviews of the daily count sheets, weekly summary sheets, delivery slips and kitchen counts creating unsubstantiated reimbursable meal information that is used to complete the reimbursement requests.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-006 (Continued)
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Context:

In our testing of June and July we noted errors in daily count sheets at 4 sights (for a total of 5 months) that included incorrect reporting of first meal counts because the preparer included all meals served in this category. We noted 14 other instances where seconds or adult meals were counted as firsts. The majority of these changes were made by the coordinator when she reported the amounts to the supervisor for reimbursement. There were also instances where the daily/weekly sheets were changed to include all meals as firsts. Meals may be provided to the adult staff at the sight but they cannot be reimbursed. We noted 14 instances where damaged or leftover meals were not indicated on the daily and weekly reports and, therefore, did not balance to the kitchen production sheet. We also noted irregularities with daily count sheets and the kitchen production sheets in 14 instances. In the majority of these instances the production sheets indicated a higher number of meals than the daily count sheets and the City used this higher number in the reimbursement request. We noted many instances of the daily sheets not matching to the weekly summary or no weekly summary being prepared at all. Weekly summaries had been altered to the point that we could not determine what the proper count was.

In addition to some of the above errors, such as no weekly summaries and incorrect completion of daily count sheets at one sight, our testing of August indicated nine of the ten serving sights photocopied the August 1 daily count sheet and used it for rest of the month. Delivery slips were either not completed, not signed or both.

The problems with supporting documentation appear to be pervasive throughout the 10 serving sights.

Questioned Costs:

We reviewed the documentation for June, July and August, the three months for food service under the Summer Food Program Grant. The population tested included a review of all daily count sheets, weekly summary reports and tracing the totals per service sight to the information submitted to the Ohio Department of Education for reimbursement. We recalculated the amount of meals that were reimbursable and noted they were over reimbursed for 908 meals totaling \$2,447 in June and 822 meals totaling \$2,215 in July. For August we determined that 5,518 meals could be verified by completed daily or weekly count sheets. The City requested reimbursement for 13,161 meals. We cannot verify the difference of 7,643 meals because no original daily count sheets or other reliable documentation can be found to verify these meals. The questioned costs for August meals are \$20,598. In total our testing indicated there are questioned costs related to meal counts in the amount of \$25,260.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-006 (Continued)
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Effect:

A lack of controls and management review appears to be having a significant effect on the documentation used to support the reimbursement requests. By not accurately recording the meals served by category and type on the documentation the City has overstated the number of meals eligible for reimbursement. By not having adequate supervisory review at all levels, including the coordinator level, inadequacies in form completion were not corrected in the early weeks of the program. These errors continued to occur throughout the program period. The program supervisor did not adequately review the coordinator's monthly meal count figures and therefore could not detect when meal counts by category and type did not correspond to the daily or weekly reports. If there had been adequate program supervisor review the copied daily count sheets may not have occurred and delivery tickets may have completed and signed as required. Because of the lack of controls and inadequate documentation the City has questioned costs under this program of \$25,260. Future grant funding may be jeopardized for this program.

Recommendation:

We recommend the program supervisor establish a procedure to verify the proper completion of daily count sheets including the proper classification of meal types (and additional training if necessary), the verification of totals and proper signatures on the daily count sheets and the completion and reconciliation of the weekly summary reports. The coordinator or other responsible person should be verifying the kitchen delivery slips to the total meals on the daily count sheets. All delivery slips should be signed by the sight supervisor and any additional meals delivered should be indicated on an additional delivery slip. All adjustments to daily or weekly reports should be indicated in a separate color in be initialed by the person making the adjustment. The program supervisor should also be reviewing all submissions of data to the Department of Education to ensure the accurate reporting of meal counts for reimbursement. All reviews and documentation of reviews (including checklists if deemed applicable) should be signed by the person performing the task and the reviewer.

City's Response: See Corrective Action Plan.

Finding Number	2005-007
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Program Information:

CFDA #20.205 – Highway Planning and Construction
U.S. Department of Transportation
Passed through Ohio Department of Transportation

Criteria:

The Ohio Department of Transportation *LPA Local-Let Policy and Procedures* handbook indicates in the LPA Requirements Chapter concerning finance, accounting and record keeping, "the LPA must have established practices and processes that ensure all financial transactions associated with the project are properly accounted and that accurate records are maintained in this regard for subsequent audit purposes". Although the Engineering Department has records that properly and accurately reflect the financial status of the project, the City, in its financial department, does not.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2005

Finding Number	2005-007 (Continued)
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Condition:

The City's process for recording direct payments to contractors was not fully effective in capturing all transactions for this grant. This caused an understatement of revenue and expense in the amount of \$619,269.

Context:

We reviewed the expenses for each of the three projects in progress during 2005 and compared the revenues received per the Ohio Department of Transportation confirmation to the revenues and expenses recorded in the City's general ledger. Each project had a separate line item for expense within the 05 Fund (.7% CIT Street Improvement Fund). Federal grant revenues are posted to a separate line item number 05-141-12-00-400151. We noted 100% of the payments made directly to the contractors by ODOT were not recorded as a revenue or expense in the general ledger. We also noted that two of the four revenue amounts posted were posted to the state grant line item rather than the federal grant line item (totaling \$71,084 in incorrectly posted revenue).

Effect:

Because of the lack of reconciliation procedures between the two departments errors in recording the proper costs of the project and the total federal assistance in the project are occurring. This will have a direct effect on the Schedule of Federal Awards and may also cause projects to be recorded on the fixed asset schedule at the wrong amount. Errors may be occurring because at the current time only those transactions that require the City to make payment are being communicated to the Finance Department. Communications of all transactions, including those that are directly paid to the contractor by the Ohio Department of Transportation, should be made to the Finance Department.

Recommendation:

We recommend the City include a purchase order for the direct pay contractor's contract amount at the beginning of the project (or for the amount anticipated to be spent in the fiscal year). When the notification of payment is received from ODOT, the Engineering Department should forward a copy of the approved request for payment to the Finance Department, clearly marked "Direct Pay by ODOT", so the Finance Department can record the payment as a memo check. The amount should also be recorded as revenue at this time. We further recommend the City provide printouts of the Revenue and Expense Audit Trail Reports to the Engineering Department on a quarterly basis so that a reconciliation of the financial records can be done. Any discrepancies in the reconciliation should be investigated and resolved in a timely manner.

City's Response: See Corrective Action Plan.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-001	Ohio Revised Code Section 5705.10, two City funds had negative fund balances.	No	Re-issued as Finding 2005- 001
2004-002	Ohio Revised Code Section 5705.36, the City failed to send information to the County Auditor for amended certificates of estimated resources.	No	Re-issued as Finding 2005- 002
2004-003	Ohio Revised Code Section 5705.40, the City did not submit appropriation amendments to the County Auditor.	No	Re-issued as Finding 2005- 003
2004-004	Ohio Revised Code Section 5705.39, two City funds had appropriations exceeding estimated resources.	No	Amounts were not material in 2005. Re-issued in management letter.
2004-005	Ohio Revised Code Section 5705.41(D), failure to properly certify expenditures.	No	Re-issued as Finding 2005- 004
2004-006	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 2005- 005



City of Steubenville

Finance Office

City Annex Building • 304 Market Street • Steubenville, Ohio 43952-2193 • Phone: 740.283.6000 ext 1300
Fax: 740.283.6165 • Website: www.cityofsteubenville.us • Email: finance@cityofsteubenville.us

CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2005 AUDIT FINDINGS

2005-001 Ohio Rev. Code Section 5705.10

The Sewage Fund (51) had a negative fund balance of \$2,029,455 at December 31, 2005, which is \$289,363 less than 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.

2005-002 Ohio Rev. Code Section 5705.36

The City did not file appropriate paperwork with the Jefferson County Auditors Office for the year 2005. In 2006 the appropriate paperwork is being 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.

2005-003 Ohio Rev. Code Section 5705.38

The City did not file appropriate paperwork with the Jefferson County Auditors Office for the year 2005. In 2006 the appropriate paperwork is being 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.

2005-004 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.

2005-005 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 preformed. 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.

2005-06 Material Weakness in Program CFDA # 10.559 – Summer Food Program

Many issues were brought to the City's attention through the audit of the Summer Food Program. At this time the finance department is working with the recreation department in order to resolve these errors in reporting. Proper oversight procedures will be put into place to ensure that an oversight in the tallying of daily sheets with the number of meals.



City of Steubenville

Finance Office

City Annex Building ▪ 304 Market Street ▪ Steubenville, Ohio 43952-2193 ▪ Phone: 740.283.6000 ext 1300
Fax: 740.283.6165 ▪ Website: www.cityofsteubenville.us ▪ Email: finance@cityofsteubenville.us

2005-07 Material Weakness in Program CFDA # 20.205 – Highway Planning and Construction

The City of Steubenville has procedures for handling federal monies on capital projects. In the year 2005, there were many staffing changes within the City, three employees in the finance office and the city engineer left employment. During this transitional period, the new city engineer and remaining finance employees did not follow the normal procedures in order to keep all expenditures reconciled. In the year 2006, normal procedures were resumed to ensure that all expenditures and revenues are recorded timely and properly.

Michael J. Marshall ^{ank}
Michael J. Marshall
Finance Director
City of Steubenville

10/5/06
Date



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JANUARY 4, 2007**