

City of Steubenville
Jefferson County, Ohio
Audited Financial Statements

December 31, 2007



Mary Taylor, CPA
Auditor of State

City Council
City of Steubenville
304 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, 2007 through December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2008

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2007

Table of Contents

	<i>Page</i>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis.....	3-14
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities.....	16-17
Fund Financial Statements:	
Balance Sheet – Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	22
Statement of Fund Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	24
Statement of Cash Flows – Proprietary Funds	25-26
Statement of Fiduciary Assets and Liabilities	27
Notes to the Basic Financial Statements	28-61
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 <i>Government Auditing Standards</i>	62-63

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2007

*Table of Contents
(Continued)*

	<i>Page</i>
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.....	64-65
Schedule of Expenditures of Federal Awards	66
Notes to Schedule of Expenditures of Federal Awards	67
Schedule of Findings & Questioned Costs.....	68-74
Schedule of Prior Audit Findings	75
Corrective Action Plan.....	76-77



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July 31, 2008

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"), as of and for the year ended December 31, 2007, 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.

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.

In our opinion, 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, as of December 31, 2007, 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 have also issued our report dated July 31, 2008 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 an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

City of Steubenville
Independent Auditor's Report
July 31, 2008

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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.

Hea & Associates, Inc.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007 (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, 2007. 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 2007 are as follows:

- The total net assets of the City increased \$9,154,890 or 34.49% over 2006. Net assets of governmental activities increased \$2,575,081 or 11.07% and net assets of business-type activities increased \$6,579,809 or 200.18%.
- General revenues accounted for \$13,734,073, or 68.90% of total governmental activities revenue. Program specific revenues accounted for \$3,582,586 or 17.97% of total governmental activities revenue. The City also had revenue for a gain on the sale of Belleview Golf Course, which is recorded as a special item, of \$2,617,966 or 13.13% of total governmental activities revenue of \$19,934,625.
- The City had \$17,329,544 in expenses related to governmental activities; \$3,582,586 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$13,746,958 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$13,734,073, and a special item of \$2,617,966.
- The general fund had revenues and other financing sources of \$13,621,710 in 2007. This represents an increase of \$1,796,031 from 2006 revenues primarily due to an increase in intergovernmental revenues compared to the prior year. The expenditures and other financing uses of the general fund, which totaled \$13,245,573 in 2007, increased \$854,565 from 2006. The net increase in fund balance for the general fund was \$376,137, from \$934,784 to \$1,310,921.
- Net assets for the business-type activities, which are made up of the water, sewer, and refuse enterprise funds, increased in 2007 by \$6,579,809.
- In the general fund, the actual revenues and other financing sources came in \$691,233 below the final budgeted revenues and other financing sources. Actual expenditures were \$716,272 less than the amount in the final budget. This was primarily due to conservative spending. The revenue variances are the result of decreasing other revenues. Budgeted revenues and expenditures were amended a few times 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, 2007 (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 2007?" 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 15-17 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.

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.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007 (UNAUDITED)

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 18-22 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 23-26 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 27 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 28-61 of this report.

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2007 and 2006. Certain 2006 amounts have been restated as described in Note 3.B. of the notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)**

Net Assets

	Governmental Activities 2007	Business-type Activities 2007	Restated Governmental Activities 2006	Business-type Activities 2006	2007 Total	Restated 2006 Total
<u>Assets</u>						
Current and other assets	\$ 18,151,687	\$ 10,327,892	\$ 14,051,021	\$ 5,713,066	\$ 28,479,579	\$ 19,764,087
Capital assets, net	<u>17,595,495</u>	<u>43,165,033</u>	<u>17,859,489</u>	<u>34,756,910</u>	<u>60,760,528</u>	<u>52,616,399</u>
Total assets	<u>35,747,182</u>	<u>53,492,925</u>	<u>31,910,510</u>	<u>40,469,976</u>	<u>89,240,107</u>	<u>72,380,486</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,818,004	42,497,890	5,382,378	35,094,978	48,315,894	40,477,356
Other liabilities	<u>4,093,515</u>	<u>1,128,247</u>	<u>3,267,550</u>	<u>2,088,019</u>	<u>5,221,762</u>	<u>5,355,569</u>
Total liabilities	<u>9,911,519</u>	<u>43,626,137</u>	<u>8,649,928</u>	<u>37,182,997</u>	<u>53,537,656</u>	<u>45,832,925</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	15,898,225	6,003,850	16,084,799	4,329,702	21,902,075	20,414,501
Restricted	9,754,075	-	6,493,852	-	9,754,075	6,493,852
Unrestricted (deficit)	<u>183,363</u>	<u>3,862,938</u>	<u>681,931</u>	<u>(1,042,723)</u>	<u>4,046,301</u>	<u>(360,792)</u>
Total net assets	<u>\$ 25,835,663</u>	<u>\$ 9,866,788</u>	<u>\$ 23,260,582</u>	<u>\$ 3,286,979</u>	<u>\$ 35,702,451</u>	<u>\$ 26,547,561</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$35,702,451. At year-end, net assets were \$25,835,663 and \$9,866,788 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 68.09% of total assets. Capital assets include land, buildings, improvements, equipment, vehicles, infrastructure and construction-in-progress. Capital assets, net of related debt to acquire the assets at December 31, 2007, were \$15,898,225 and \$6,003,850 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, 2007, 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, \$9,754,075, 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 \$183,363 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, 2007
(UNAUDITED)**

The table below shows the changes in net assets for fiscal year 2007 and 2006.

	Change in Net Assets					
			Restated			
	Governmental Activities 2007	Business-type Activities 2007	Governmental Activities 2006	Business-type Activities 2006	2007 Total	Restated 2006 Total
Revenues						
Program revenues:						
Charges for services	\$ 1,170,665	\$ 14,759,175	\$ 1,277,370	\$ 11,349,523	\$ 15,929,840	\$ 12,626,893
Operating grants and contributions	2,075,776	-	2,845,380	-	2,075,776	2,845,380
Capital grants and contributions	336,145	-	693,500	-	336,145	693,500
Total program revenues	3,582,586	14,759,175	4,816,250	11,349,523	18,341,761	16,165,773
General revenues:						
Property taxes	1,408,055	-	1,487,416	-	1,408,055	1,487,416
Income taxes	8,681,044	-	8,657,570	-	8,681,044	8,657,570
Hotel taxes	268,287	-	2,607	-	268,287	2,607
Unrestricted grants and entitlements	2,921,033	-	1,899,649	-	2,921,033	1,899,649
Investment earnings	238,765	283,091	233,119	128,394	521,856	361,513
Contributions and donations	20,915	-	-	-	20,915	-
Miscellaneous	195,974	610,079	295,708	36,019	806,053	331,727
Total general revenues	13,734,073	893,170	12,576,069	164,413	14,627,243	12,740,482
Total revenues	17,316,659	15,652,345	17,392,319	11,513,936	32,969,004	28,906,255
Expenses:						
General government	3,709,120	-	3,068,472	-	3,709,120	3,068,472
Security of persons and property	7,899,412	-	7,396,326	-	7,899,412	7,396,326
Public health and welfare	584,846	-	554,806	-	584,846	554,806
Transportation	3,108,143	-	2,524,113	-	3,108,143	2,524,113
Community environment	766,962	-	996,697	-	766,962	996,697
Leisure time activity	1,150,102	-	1,094,251	-	1,150,102	1,094,251
Interest and fiscal charges	110,959	-	155,708	-	110,959	155,708
Water	-	4,196,897	-	3,005,936	4,196,897	3,005,936
Sewer	-	3,261,806	-	2,668,393	3,261,806	2,668,393
Refuse	-	1,643,833	-	1,480,158	1,643,833	1,480,158
Total expenses	17,329,544	9,102,536	15,790,373	7,154,487	26,432,080	22,944,860
Increase (decrease) in net assets before transfers and special item	(12,885)	6,549,809	1,601,946	4,359,449	6,536,924	5,961,395
Transfers	(30,000)	30,000	(93,925)	93,925	-	-
Special item	2,617,966	-	-	-	2,617,966	-
Change in net assets	2,575,081	6,579,809	1,508,021	4,453,374	9,154,890	5,961,395
Net assets at beginning of year (restated)	23,260,582	3,286,979	21,752,561	(1,166,395)	26,547,561	20,586,166
Net assets at end of year	\$ 25,835,663	\$ 9,866,788	\$ 23,260,582	\$ 3,286,979	\$ 35,702,451	\$ 26,547,561

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007 (UNAUDITED)

Governmental Activities

Governmental activities net assets increased \$2,575,081 in 2007. The increase is a result of a gain from the sale of Belleview Golf Course during 2007, as well as increasing intergovernmental revenues which outpaced increasing expenditures.

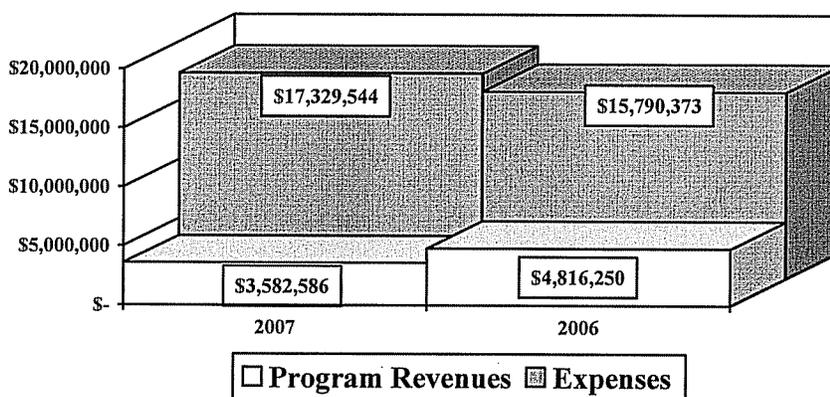
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$7,899,412 which accounted for 45.59% of the total expenses of the City. These expenses were partially funded by \$780 in operating grants and contributions. General government expenses totaled \$3,709,120 or 21.41% of the total expenses of the City, which was partially funded by \$722,722 in direct user charges and \$12,342 in operating grants and contributions.

The State and Federal government contributed to the City a total of \$2,075,776 in operating grants and contributions.

General revenues totaled \$13,734,073 and amounted to 68.90% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$10,089,099. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$2,921,033.

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

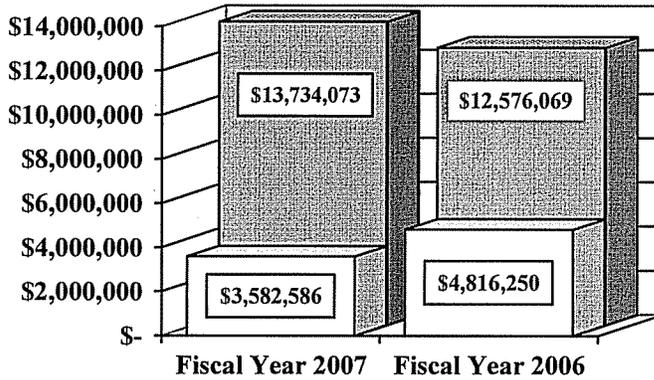
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)**

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses:				
General government	\$ 3,709,120	\$ 2,974,056	\$ 3,068,472	\$ 2,035,647
Security of persons and property	7,899,412	7,898,632	7,396,326	6,697,858
Public health and welfare	584,846	487,531	554,806	438,569
Transportation	3,108,143	1,619,899	2,524,113	832,816
Community environment	766,962	(149,303)	996,697	7,041
Leisure time activity	1,150,102	805,184	1,094,251	806,484
Interest and fiscal charges	110,959	110,959	155,708	155,708
Total	\$ 17,329,544	\$ 13,746,958	\$ 15,790,373	\$ 10,974,123

The dependence upon general revenues for governmental activities is apparent, with 79.33% and 69.50% of expenses supported through taxes and other general revenues for 2007 and 2006, respectively.

Governmental Activities – General and Program Revenues



□ Program Revenues ■ General Revenues

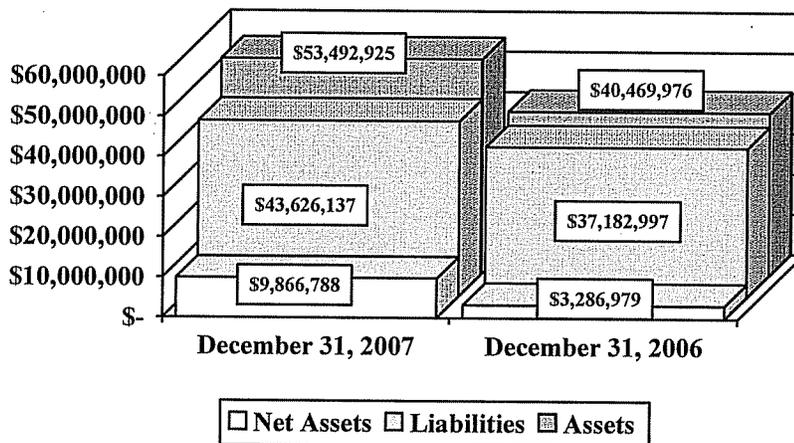
CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$14,759,175, general revenues of \$893,170, and expenses of \$9,102,536 for 2007. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



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 18) reported a combined fund balance of \$9,804,959, which is \$3,854,899 higher than the previous year's fund balance of \$5,950,060. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2007 for all major and nonmajor governmental funds.

	Fund Balances 12/31/07	Fund Balances 12/31/06	Increase
Major funds:			
General	\$ 1,310,921	\$ 934,784	\$ 376,137
Other nonmajor governmental funds	8,494,038	5,015,276	3,478,762
Total	\$ 9,804,959	\$ 5,950,060	\$ 3,854,899

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)

General Fund

The City's general fund balance increased \$376,137. The table that follows assists in illustrating the revenues of the general fund.

	<u>2007</u>	<u>2006</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,155,727	\$ 8,572,510	6.80 %
Charges for services	113,196	112,981	0.19 %
Licenses and permits	498,424	497,937	0.10 %
Fines and forfeitures	344,299	353,892	(2.71) %
Investment income	235,602	221,798	6.22 %
Intergovernmental	3,030,950	1,922,845	57.63 %
Rental income	86,991	105,189	(17.30) %
Other	<u>118,225</u>	<u>38,495</u>	207.12 %
Total	<u>\$ 13,583,414</u>	<u>\$ 11,825,647</u>	14.86 %

Tax revenue represents 67.41% of all general fund revenue. The increase in income tax revenue is due to an increase in health care providers relocating to the City, which provides an increase in the amount of employees within the City. The most significant increase in revenues occurred in intergovernmental revenue due to an increase in inheritance tax receipts. Other revenue increased due to an increase in contributions and donations and reimbursements. All other revenue remained consistent between 2006 and 2007.

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

	<u>2007</u>	<u>2006</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,970,717	\$ 2,636,535	12.68 %
Security of persons and property	7,714,091	7,280,826	5.95 %
Public health and welfare	490,409	462,589	6.01 %
Transportation	1,091,139	983,173	10.98 %
Community environment	62,828	59,378	5.81 %
Leisure time activity	781,700	789,803	(1.03) %
Capital outlay	24,406	-	100.00 %
Debt service	<u>110,283</u>	<u>155,178</u>	(28.93) %
Total	<u>\$ 13,245,573</u>	<u>\$ 12,367,482</u>	7.10 %

The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to overall cost increases in purchased goods and services. The increase in general government is partially due to wage and benefit increases for various City departments. The increase in transportation expenditures was due to an increase in street department expenditures in 2007. The decrease in leisure time activities was due to reductions that result from the sale of the golf course. All other expenditures remained consistent between 2006 and 2007.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)

Budgeting Highlights – General Fund

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

Budgetary information is presented for the general fund only. In the general fund, estimated revenues increased \$1,691,783, due to increased collection of inheritance taxes. Appropriations were increased by \$1,876,529 during 2007. Increases to the appropriations were primarily due to increasing health care costs and purchased services. Actual revenues and other financing sources of \$14,468,881 were lower than final budgeted revenues and other financing sources by \$691,233. Actual expenditures of \$16,056,329 came in \$716,272 less than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the City had \$60,760,528 (net of accumulated depreciation) invested in land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$17,595,495 was reported in governmental activities and \$43,165,033 was reported in business-type activities. The 2006 governmental activities capital assets have been restated to retroactively report infrastructure. See Note 3.B. of the basic financial statements for detail. The following table shows fiscal 2007 balances compared to 2006:

	Capital Assets at December 31 (Net of Depreciation)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2007	Restated 2006	2007	2006	2007	Restated 2006
Land	\$ 334,112	\$ 296,013	\$ 66,000	\$ 36,000	\$ 400,112	\$ 332,013
Construction- in-progress	235,986	264,610	3,804,201	19,347,786	4,040,187	19,612,396
Buildings	1,531,540	1,567,367	24,557,256	889,123	26,088,796	2,456,490
Improvements	706,694	750,778	20,488	20,925	727,182	771,703
Equipment	526,753	484,888	250,616	147,840	777,369	632,728
Vehicles	1,437,470	1,397,421	236,317	316,657	1,673,787	1,714,078
Infrastructure	<u>12,822,940</u>	<u>13,098,412</u>	<u>14,230,155</u>	<u>13,998,579</u>	<u>27,053,095</u>	<u>27,096,991</u>
Totals	<u>\$ 17,595,495</u>	<u>\$ 17,859,489</u>	<u>\$ 43,165,033</u>	<u>\$ 34,756,910</u>	<u>\$ 60,760,528</u>	<u>\$ 52,616,399</u>

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)

The City's largest capital asset category is infrastructure which includes roads constructed from 1980 through 2007. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 72.88% of the City's total governmental capital assets.

The City's second 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 32.97% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2007 and 2006. Additional details are provided in Note 11 of the notes to the financial statements.

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Loans payable	\$ 1,650,340	\$ 1,759,540
Compensated absences	1,381,528	1,494,113
Notes payable	681,864	-
Capital lease obligation payable	30,013	15,150
Police and fire pension liability	<u>2,074,259</u>	<u>2,113,575</u>
Total long-term obligations	<u>\$ 5,818,004</u>	<u>\$ 5,382,378</u>
	Business-type Activities	
	<u>2007</u>	<u>2006</u>
Long-term notes payable	\$ 97,579	\$ 135,257
Capital lease obligation payable	10,296	20,121
OWDA loans	32,715,318	24,804,345
OPWC loans	481,538	531,372
Bond anticipation note	652,000	652,000
Landfill closure/postclosure	5,007,661	5,131,025
Compensated absences	329,046	429,058
Loans payable	135,191	145,816
Bonds payable	<u>3,069,261</u>	<u>3,245,984</u>
Total long-term obligations	<u>\$ 42,497,890</u>	<u>\$ 35,094,978</u>

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
(UNAUDITED)**

Economic Conditions and Outlook

The City has seen a surge in health care providers locating in Steubenville as well as continued profitability from major national retailers located in and around Steubenville. The net result of this somewhat of a stability is in projected income tax collections.

Additionally, the City reduced its workforce in 2005, resulting in an overall reduction in personnel costs through many of its departments. Finally, the City is pursuing cost sharing in health care costs through increased employee health care deductibles and co-pays.

The City continues to grapple with the high cost of providing water and sewer to its customers while meeting the demands of Federal and State environmental authorities. This has resulted in higher costs to its customers.

The net result of the above is a continued precarious financial outlook. Continued diligence will be practiced by the City to meet its financial projections.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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, 2007

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents.	\$ 11,148,798	\$ 8,302,588	\$ 19,451,386
Receivables (net of allowances for uncollectibles):			
Income taxes	2,018,604	-	2,018,604
Real and other taxes	1,871,529	-	1,871,529
Accounts	6,338	1,793,982	1,800,320
Special assessments	90,607	-	90,607
Due from other governments.	2,725,735	-	2,725,735
Internal balances	68,392	(68,392)	-
Prepayments	11,660	299,714	311,374
Materials and supplies inventory.	210,024	-	210,024
Capital assets:			
Land and construction-in-progress	570,098	3,870,201	4,440,299
Depreciable capital assets, net	17,025,397	39,294,832	56,320,229
Total capital assets, net	<u>17,595,495</u>	<u>43,165,033</u>	<u>60,760,528</u>
Total assets.	<u>35,747,182</u>	<u>53,492,925</u>	<u>89,240,107</u>
Liabilities:			
Accounts payable.	180,838	263,004	443,842
Contracts payable.	406,015	311,902	717,917
Retainage payable	16,917	-	16,917
Accrued wages and benefits	340,712	96,466	437,178
Accrued vacation payable	497,332	182,887	680,219
Due to other governments	990,294	255,506	1,245,800
Unearned revenue	1,427,458	-	1,427,458
Accrued interest payable.	32,547	18,482	51,029
Claims payable.	201,402	-	201,402
Long-term liabilities:			
Due within one year.	547,271	2,536,198	3,083,469
Due in more than one year	5,270,733	39,961,692	45,232,425
Total liabilities	<u>9,911,519</u>	<u>43,626,137</u>	<u>53,537,656</u>
Net assets:			
Invested in capital assets, net of related debt	15,898,225	6,003,850	21,902,075
Restricted for:			
Capital projects.	5,669	-	5,669
Debt service	606,116	-	606,116
Street construction, maintenance and repairs.	2,154,123	-	2,154,123
Police and fire	51,763	-	51,763
Court computer.	45,815	-	45,815
Recreation	3,045,062	-	3,045,062
Community development.	1,619,150	-	1,619,150
Health programs	165,029	-	165,029
Safety programs	1,303,307	-	1,303,307
Other purposes	758,041	-	758,041
Unrestricted.	183,363	3,862,938	4,046,301
Total net assets	<u>\$ 25,835,663</u>	<u>\$ 9,866,788</u>	<u>\$ 35,702,451</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government.	\$ 3,709,120	\$ 722,722	\$ 12,342	\$ -
Security of persons and property	7,899,412	-	780	-
Public health and welfare	584,846	96,972	343	-
Transportation.	3,108,143	80,782	1,071,317	336,145
Community environment	766,962	122,548	793,717	-
Leisure time activity.	1,150,102	147,641	197,277	-
Interest and fiscal charges.	110,959	-	-	-
Total governmental activities	<u>17,329,544</u>	<u>1,170,665</u>	<u>2,075,776</u>	<u>336,145</u>
Business-type Activities:				
Water	4,196,897	7,097,240	-	-
Sewer	3,261,806	5,607,176	-	-
Refuse.	1,643,833	2,054,759	-	-
Total business-type activities	<u>9,102,536</u>	<u>14,759,175</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 26,432,080</u>	<u>\$ 15,929,840</u>	<u>\$ 2,075,776</u>	<u>\$ 336,145</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Debt service	
Income tax levied for:	
General purposes.	
Street fund	
Equipment improvement	
Recreation	
Other taxes:	
Hotel occupancy taxes	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Contributions and donations	
Miscellaneous	
Total general revenues.	
Increase (decrease) in net assets before transfers and special item	
Transfers	
Special item:	
Gain on sale of golf course.	
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
\$ (2,974,056)	\$ -	\$ (2,974,056)
(7,898,632)	-	(7,898,632)
(487,531)	-	(487,531)
(1,619,899)	-	(1,619,899)
149,303	-	149,303
(805,184)	-	(805,184)
(110,959)	-	(110,959)
<u>(13,746,958)</u>	<u>-</u>	<u>(13,746,958)</u>
-	2,900,343	2,900,343
-	2,345,370	2,345,370
-	410,926	410,926
-	<u>5,656,639</u>	<u>5,656,639</u>
<u>(13,746,958)</u>	<u>5,656,639</u>	<u>(8,090,319)</u>
1,166,643	-	1,166,643
241,412	-	241,412
7,585,986	-	7,585,986
695,058	-	695,058
300,000	-	300,000
100,000	-	100,000
268,287	-	268,287
2,921,033	-	2,921,033
238,765	283,091	521,856
20,915	-	20,915
195,974	610,079	806,053
<u>13,734,073</u>	<u>893,170</u>	<u>14,627,243</u>
(12,885)	6,549,809	6,536,924
(30,000)	30,000	-
<u>2,617,966</u>	<u>-</u>	<u>2,617,966</u>
2,575,081	6,579,809	9,154,890
<u>23,260,582</u>	<u>3,286,979</u>	<u>26,547,561</u>
<u>\$ 25,835,663</u>	<u>\$ 9,866,788</u>	<u>\$ 35,702,451</u>

CITY OF STEUBENVILLE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,017,500	\$ 8,914,711	\$ 10,932,211
Receivables (net of allowance for uncollectibles):			
Income taxes	1,973,182	45,422	2,018,604
Real and other taxes.	1,546,175	325,354	1,871,529
Accounts	6,338	-	6,338
Special assessments.	-	90,607	90,607
Due from other governments	791,605	1,934,130	2,725,735
Prepayments.	10,496	1,164	11,660
Materials and supplies inventory	175,000	35,024	210,024
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 6,520,296</u>	<u>\$ 11,346,412</u>	<u>\$ 17,866,708</u>
Liabilities:			
Accounts payable	\$ 108,922	\$ 71,916	\$ 180,838
Contracts payable	-	406,015	406,015
Retainage payable.	-	16,917	16,917
Accrued wages and benefits.	332,643	8,069	340,712
Compensated absences payable.	41,034	-	41,034
Due to other governments.	911,739	78,555	990,294
Deferred revenue	2,653,839	2,004,642	4,658,481
Unearned revenue.	1,161,198	266,260	1,427,458
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>5,209,375</u>	<u>2,852,374</u>	<u>8,061,749</u>
Fund Balances:			
Reserved for encumbrances.	1,981,240	178,377	2,159,617
Reserved for prepayments	10,496	1,164	11,660
Reserved for materials and supplies inventory	175,000	35,024	210,024
Unreserved, undesignated (deficit), reported in:			
General fund.	(855,815)	-	(855,815)
Special revenue funds.	-	7,731,775	7,731,775
Debt service fund	-	542,029	542,029
Capital projects funds.	-	5,669	5,669
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>1,310,921</u>	<u>8,494,038</u>	<u>9,804,959</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances.	<u>\$ 6,520,296</u>	<u>\$ 11,346,412</u>	<u>\$ 17,866,708</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, 2007

Total governmental fund balances		\$	9,804,959
<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.			17,595,495
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income taxes	\$	1,749,378	
Property taxes		427,988	
Intergovernmental revenues		2,390,508	
Special assessments		90,607	
Total			4,658,481
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 \$68,392, are:			83,577
Interest is accrued on outstanding loans and notes in the statement of net assets whereas in governmental funds, interest expenditures are reported when due.			(32,547)
Vacation is accrued for leave accrued in the statement of net assets whereas in governmental funds, vacation leave expenditures are reported when taken.			(497,332)
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		(1,340,494)	
Police and fire pension liability		(2,074,259)	
Notes payable		(681,864)	
Loans payable		(1,650,340)	
Capital lease payable		(30,013)	
Total			(5,776,970)
Net assets of governmental activities		\$	25,835,663

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, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 7,834,852	\$ 1,100,786	\$ 8,935,638
Property and other taxes	1,320,875	352,901	1,673,776
Charges for services	113,196	2,470	115,666
Licenses and permits	498,424	80,142	578,566
Fines and forfeitures	344,299	45,143	389,442
Intergovernmental	3,030,950	2,177,051	5,208,001
Special assessments	-	19,532	19,532
Contributions and donations	20,915	15,000	35,915
Investment income	235,602	165,044	400,646
Rental income	86,991	-	86,991
Other	97,310	84,774	182,084
Total revenues	<u>13,583,414</u>	<u>4,042,843</u>	<u>17,626,257</u>
Expenditures:			
Current:			
General government	2,970,717	847,994	3,818,711
Security of persons and property	7,714,091	16,533	7,730,624
Public health and welfare	490,409	76,878	567,287
Transportation	1,091,139	1,792,342	2,883,481
Community environment	62,828	727,542	790,370
Leisure time activity	781,700	313,747	1,095,447
Capital outlay	24,406	494	24,900
Debt service:			
Principal retirement	64,398	161,797	226,195
Interest and fiscal charges	45,885	64,831	110,716
Total expenditures	<u>13,245,573</u>	<u>4,002,158</u>	<u>17,247,731</u>
Excess of revenues over expenditures	<u>337,841</u>	<u>40,685</u>	<u>378,526</u>
Other financing sources (uses):			
Sale of capital assets	13,890	-	13,890
Sale of notes	-	750,000	750,000
Transfers in	-	695	695
Transfers out	-	(695)	(695)
Capital lease transaction	24,406	-	24,406
Total other financing sources (uses)	<u>38,296</u>	<u>750,000</u>	<u>788,296</u>
Special item - sale of golf course	-	2,688,077	2,688,077
Net change in fund balances	376,137	3,478,762	3,854,899
Fund balances at beginning of year	934,784	5,015,276	5,950,060
Fund balances at end of year	<u>\$ 1,310,921</u>	<u>\$ 8,494,038</u>	<u>\$ 9,804,959</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, 2007

Net change in fund balances - total governmental funds \$ 3,854,899

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 is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 1,336,789	
Current year depreciation	<u>(1,530,672)</u>	
Total		(193,883)

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. (70,111)

Proceeds of notes 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. (774,406)

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

Income taxes	(254,594)	
Property taxes	2,566	
Intergovernmental revenues	(5,900)	
Special assessments	<u>(68,723)</u>	
Total		(326,651)

Repayment of loan, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 226,195

In the statement of activities, interest is accrued on outstanding loans and notes, whereas in governmental funds, an interest expenditure is reported when due. (243)

In the statement of activities, vacation leave is accrued when earned, whereas in governmental funds, an expenditure is reported when vacation leave is taken. (22,364)

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 (10,606)

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 \$103,062, is allocated among the governmental activities. (107,749)

Change in net assets of governmental activities \$ 2,575,081

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 7,385,108	\$ 7,685,108	\$ 7,826,734	\$ 141,626
Property and other taxes	1,259,713	1,256,667	1,320,390	63,723
Charges for services	64,999	116,471	109,671	(6,800)
Licenses and permits.	497,846	522,100	498,514	(23,586)
Fines and forfeitures.	354,019	370,041	344,299	(25,742)
Intergovernmental	1,943,651	3,120,092	3,058,560	(61,532)
Contributions and donations.	-	20,915	20,915	-
Investment income	85,112	156,872	235,602	78,730
Rental income.	97,883	97,883	86,991	(10,892)
Other.	1,780,000	1,800,075	953,315	(846,760)
Total revenues.	<u>13,468,331</u>	<u>15,146,224</u>	<u>14,454,991</u>	<u>(691,233)</u>
Expenditures:				
Current:				
General government	5,483,270	6,452,811	6,436,146	16,665
Security of persons and property	6,964,242	7,656,104	7,138,631	517,473
Public health and welfare.	468,717	469,589	450,825	18,764
Transportation	1,139,702	1,289,303	1,201,576	87,727
Community environment	50,639	51,245	50,680	565
Leisure time activity	771,502	835,675	761,240	74,435
Debt service:				
Principal retirement	15,000	15,996	15,545	451
Interest and fiscal charges	3,000	1,878	1,686	192
Total expenditures.	<u>14,896,072</u>	<u>16,772,601</u>	<u>16,056,329</u>	<u>716,272</u>
Deficiency of revenues under expenditures	<u>(1,427,741)</u>	<u>(1,626,377)</u>	<u>(1,601,338)</u>	<u>25,039</u>
Other financing sources:				
Sale of capital assets.	-	13,890	13,890	-
Total other financing sources	<u>-</u>	<u>13,890</u>	<u>13,890</u>	<u>-</u>
Net change in fund balance	(1,427,741)	(1,612,487)	(1,587,448)	25,039
Fund balance at beginning of year	405,512	405,512	405,512	-
Prior year encumbrances appropriated	<u>1,194,118</u>	<u>1,194,118</u>	<u>1,194,118</u>	<u>-</u>
Fund balance (deficit) at end of year.	<u>\$ 171,889</u>	<u>\$ (12,857)</u>	<u>\$ 12,182</u>	<u>\$ 25,039</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2007

	Business-type Activities -Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 6,061,050	\$ 1,185,856	\$ 1,055,682	\$ 8,302,588	\$ 216,587
Receivables (net of allowance for uncollectibles)					
Accounts	836,442	729,342	228,198	1,793,982	-
Prepayments	3,913	292,953	2,848	299,714	-
Total current assets	<u>6,901,405</u>	<u>2,208,151</u>	<u>1,286,728</u>	<u>10,396,284</u>	<u>216,587</u>
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	2,046,001	1,794,200	30,000	3,870,201	-
Depreciable capital assets, net	36,914,492	2,075,893	304,447	39,294,832	-
Total capital assets, net	<u>38,960,493</u>	<u>3,870,093</u>	<u>334,447</u>	<u>43,165,033</u>	-
Total noncurrent assets	<u>38,960,493</u>	<u>3,870,093</u>	<u>334,447</u>	<u>43,165,033</u>	-
Total assets	<u>45,861,898</u>	<u>6,078,244</u>	<u>1,621,175</u>	<u>53,561,317</u>	<u>216,587</u>
Liabilities:					
Current liabilities:					
Accounts payable	73,878	128,376	60,750	263,004	-
Contracts payable	264,738	47,164	-	311,902	-
Accrued wages and benefits	43,978	33,701	18,787	96,466	-
Due to other governments	117,769	82,832	54,905	255,506	-
Accrued vacation payable	81,778	64,198	36,911	182,887	-
Accrued interest payable	7,570	8,695	2,217	18,482	-
Current portion of compensated absences	20,226	33,250	8,010	61,486	-
Current portion of OPWC loans	26,820	23,015	-	49,835	-
Current portion of OWDA loans	1,529,162	15,473	-	1,544,635	-
Current portion of bonds payable	139,034	41,597	-	180,631	-
Current portion of capital lease obligation	-	10,296	-	10,296	-
Current portion of bond anticipation notes	-	652,000	-	652,000	-
Current portion of notes payable	-	-	22,550	22,550	-
Current portion of loans payable	-	14,765	-	14,765	-
Claims payable	-	-	-	-	201,402
Total current liabilities	<u>2,304,953</u>	<u>1,155,362</u>	<u>204,130</u>	<u>3,664,445</u>	<u>201,402</u>
Long-term liabilities:					
Compensated absences	129,697	89,809	48,054	267,560	-
OPWC loans	293,613	138,090	-	431,703	-
OWDA loans	30,965,357	205,326	-	31,170,683	-
General obligation bonds payable	1,707,084	1,181,546	-	2,888,630	-
Loans payable	-	120,426	-	120,426	-
Notes payable	-	-	75,029	75,029	-
Landfill closure/postclosure	-	-	5,007,661	5,007,661	-
Total long-term liabilities	<u>33,095,751</u>	<u>1,735,197</u>	<u>5,130,744</u>	<u>39,961,692</u>	-
Total liabilities	<u>35,400,704</u>	<u>2,890,559</u>	<u>5,334,874</u>	<u>43,626,137</u>	<u>201,402</u>
Net assets:					
Invested in capital assets, net of related debt	4,299,423	1,467,559	236,868	6,003,850	-
Unrestricted (deficit)	6,161,771	1,720,126	(3,950,567)	3,931,330	15,185
Total net assets (deficit)	<u>\$ 10,461,194</u>	<u>\$ 3,187,685</u>	<u>\$ (3,713,699)</u>	<u>9,935,180</u>	<u>\$ 15,185</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				(68,392)	
Net assets of business-type activities				<u>\$ 9,866,788</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>	<u>Activities - Internal Service Funds</u>
Operating revenues:					
Charges for services	\$ 7,097,240	\$ 5,607,176	\$ 2,054,759	\$ 14,759,175	\$ 1,416,128
Other	565,797	40,612	3,670	610,079	-
Total operating revenues	<u>7,663,037</u>	<u>5,647,788</u>	<u>2,058,429</u>	<u>15,369,254</u>	<u>1,416,128</u>
Operating expenses:					
Personal services	1,514,193	1,380,932	922,083	3,817,208	-
Contract services	493,176	98,653	408,914	1,000,743	-
Materials and supplies	302,959	1,290,171	228,467	1,821,597	-
Utilities	355,599	249,758	10,018	615,375	-
Depreciation	565,263	74,196	51,051	690,510	-
Claims	-	-	-	-	1,630,102
Total operating expenses	<u>3,231,190</u>	<u>3,093,710</u>	<u>1,620,533</u>	<u>7,945,433</u>	<u>1,630,102</u>
Operating income (loss)	<u>4,431,847</u>	<u>2,554,078</u>	<u>437,896</u>	<u>7,423,821</u>	<u>(213,974)</u>
Nonoperating revenue (expenses):					
Interest revenue	178,014	76,604	28,473	283,091	3,163
Loss on disposal of capital asset	(2,383)	-	-	(2,383)	-
Interest expense and fiscal charges	(912,936)	(132,513)	(6,209)	(1,051,658)	-
Total nonoperating revenues (expenses)	<u>(737,305)</u>	<u>(55,909)</u>	<u>22,264</u>	<u>(770,950)</u>	<u>3,163</u>
Income (loss) before capital contributions	3,694,542	2,498,169	460,160	6,652,871	(210,811)
Capital contributions	-	-	30,000	30,000	-
Changes in net assets	3,694,542	2,498,169	490,160	6,682,871	(210,811)
Net assets (deficit) at beginning of year	<u>6,766,652</u>	<u>689,516</u>	<u>(4,203,859)</u>		<u>225,996</u>
Net assets (deficit) at end of year	<u>\$ 10,461,194</u>	<u>\$ 3,187,685</u>	<u>\$ (3,713,699)</u>		<u>\$ 15,185</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				(103,062)	
Changes in net assets of business-type activities				<u>\$ 6,579,809</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Cash flows from operating activities:					
Cash received from charges for services	\$ 6,565,705	\$ 5,427,292	\$ 2,058,654	\$ 14,051,651	\$ 1,416,128
Cash received from other operations	565,797	40,612	3,670	610,079	-
Cash payments for personal services	(1,494,792)	(1,421,279)	(916,222)	(3,832,293)	-
Cash payments for contract services.	(178,513)	(51,511)	(407,560)	(637,584)	-
Cash payments for materials and supplies.	(312,325)	(1,173,500)	(228,815)	(1,714,640)	-
Cash payments for utilities	(355,599)	(249,758)	(10,018)	(615,375)	-
Cash payments for claims.	-	-	-	-	(1,487,963)
Net cash provided by (used in) operating activities. . .	4,790,273	2,571,856	499,709	7,861,838	(71,835)
Cash flows from noncapital financing activities:					
Cash used in repayment of interfund loans	-	(397,432)	-	(397,432)	-
Net cash used in noncapital financing activities. . . .	-	(397,432)	-	(397,432)	-
Cash flows from capital and related financing activities:					
Acquisition of capital assets.	(9,902,509)	(569,340)	(143,480)	(10,615,329)	-
Landfill closure/postclosure expenses	-	-	(92,253)	(92,253)	-
Principal retirement on OPWC loans.	(26,819)	(23,015)	-	(49,834)	-
Principal retirement on OWDA loans.	(1,542,234)	(319,723)	-	(1,861,957)	-
Principal retirement on loans	-	(10,625)	-	(10,625)	-
Principal retirement on notes	-	-	(37,678)	(37,678)	-
Principal retirement on lease	-	(9,825)	-	(9,825)	-
Principal retirement on general obligation bonds	(137,275)	(39,448)	-	(176,723)	-
Loan issuance	9,442,326	39,600	-	9,481,926	-
Interest and fiscal charges.	(913,459)	(132,796)	(6,209)	(1,052,464)	-
Net cash used in capital and related financing activities	(3,079,970)	(1,065,172)	(279,620)	(4,424,762)	-
Cash flows from investing activities:					
Interest received	178,014	76,604	28,473	283,091	3,163
Net cash provided by investing activities	178,014	76,604	28,473	283,091	3,163
Net increase (decrease) in cash and cash equivalents	1,888,317	1,185,856	248,562	3,322,735	(68,672)
Cash and cash equivalents at beginning of year	4,172,733	-	807,120	4,979,853	285,259
Cash and cash equivalents at end of year.	\$ 6,061,050	\$ 1,185,856	\$ 1,055,682	\$ 8,302,588	\$ 216,587

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CITY OF STEUBENVILLE, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007

	<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 operating activities:					
Operating income (loss)	\$ 4,431,847	\$ 2,554,078	\$ 437,896	\$ 7,423,821	\$ (213,974)
Adjustments:					
Depreciation	565,263	74,196	51,051	690,510	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(531,535)	(179,884)	3,895	(707,524)	-
(Increase) decrease in prepayments	373	(22)	456	807	-
Increase (decrease) in accounts payable	38,361	116,671	(962)	154,070	-
Decrease in contracts payable	264,738	47,164	-	311,902	-
Increase in accrued wages and benefits	11,004	6,557	2,617	20,178	-
Decrease in compensated absences payable	(21,862)	(68,652)	(9,498)	(100,012)	-
Increase in accrued vacation payable	13,164	2,585	3,333	19,082	-
Increase in due to other governments	18,920	19,163	10,921	49,004	-
Increase in claims payable	-	-	-	-	142,139
Net cash provided by (used in) operating activities	<u>\$ 4,790,273</u>	<u>\$ 2,571,856</u>	<u>\$ 499,709</u>	<u>\$ 7,861,838</u>	<u>\$ (71,835)</u>

At December 31, 2007 and December 31, 2006, the water fund purchased \$0 and \$1,544,313, respectively, in capital assets on account.
At December 31, 2007, the water and sewer funds overpaid the outstanding balances on OWDA loans by \$982 and \$290,022, respectively, which are recorded as prepayments on the statement of net assets.
At December 31, 2007 and December 31, 2006, the refuse fund purchased \$31,111 and \$0 respectively, in landfill closure services on account.
The refuse fund received \$30,000 in capital contributions from other funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2007

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 287,641
Cash in segregated accounts	<u>21,708</u>
Total assets	<u>\$ 309,349</u>
Liabilities:	
Accounts payable	\$ 121
Undistributed monies	21,708
Deposits held and due to others	<u>287,520</u>
Total liabilities	<u>\$ 309,349</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, 2007

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, 2007

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, 2007

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 are the City's major enterprise funds:

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 report 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, which are primarily to account for the Mayor's Court activity and for funds held in trust for deposits.

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, 2007

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 6.B.). Revenue from property taxes is recognized in the year for which the taxes are levied (see Note 6.A.). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise 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, 2007, but which were levied to finance year 2008 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2007, are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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. Allocation of costs, 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 department 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, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The certificate 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 2007, the City's investments were limited to overnight repurchase agreements.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During 2007, interest revenue credited to the general fund amounted to \$235,602 which includes \$156,359 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 depository accounts at year-end is provided in Note 4.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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. 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, 2007

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 is 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 earned in the current year must be used by December 31 of the following 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. Prepaid Items

Prepayments made to vendors for services that will benefit future periods beyond December 31, 2007 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed. In the sewer fund, the prepaid assets also includes \$291,004 for payments made to the OWDA for open loans in excess of the amount outstanding.

L. 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 and compensated absences 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.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

M. Interfund Activity

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

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 financial statements. 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. The City had no interfund loans during fiscal year 2007.

O. Fund Balance Reserves

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of Council and that are either unusual in nature or infrequent in occurrence. During fiscal year 2007, the City sold the Belleview Golf Course and associated equipment for \$2,688,077. The proceeds of the sale are recorded as a special item in the recreation fund, a nonmajor governmental fund. The gain on the sale is \$2,617,966, which is shown as a special item in the statement of activities. The City had no extraordinary items during fiscal year 2007.

Q. 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.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

R. 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.

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. During 2007, the enterprise funds received \$30,000 in capital contributions from governmental funds.

T. 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.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2007, the City has implemented GASB Statement No. 48 "*Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenues*". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.

B. Restatement of Net Assets

The net assets of the governmental activities have been restated to retroactively report infrastructure capital assets. See Note 8 for details regarding the effects on capital assets. The following is the effect on net assets previously reported as of December 31, 2006:

	Governmental Activities
Net assets, December 31, 2006	\$ 18,745,063
Adjustment for capital assets	4,515,519
Restated net assets, January 1, 2007	<u>\$ 23,260,582</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

C. Deficit Net Assets

The following fund had deficit net assets as of December 31, 2007

Major proprietary fund

Refuse	\$ 3,713,699
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This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. 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 refuse fund is caused by the reporting of a liability for estimated closure and post-closure care costs for the municipal landfill. The liability for estimated closure and post-closure care costs is more fully described in Note 16.

D. Compliance

Contrary to Ohio Revised Code Section 5705.10, the City had negative cash balances in various funds during the year.

Contrary to Ohio Revised Code Section 5705.41(D), the City expended funds without the prior certification of the fiscal officer.

Contrary to Ohio Revised Code Section 5705.41(B), the City had expenditures exceeding appropriations in various funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies may 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;

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above 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.

Protection of the 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.

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 Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash in Segregated Accounts

At year-end, the City had \$21,708 deposited with a financial institution for monies related to the Mayor's Court which is reported as an agency fund. The entire balance is covered by FDIC. These amounts are not included in the City's depository balance below.

B. Deposits with Financial Institutions

At December 31, 2007, the carrying amount of all City deposits was \$8,015,137, exclusive of the \$11,723,890 in repurchase agreements included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$7,690,034 of the City's bank balance of \$8,238,879 was exposed to custodial risk as discussed below, while \$548,845 was covered by the 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. Investments

As of December 31, 2007, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	Investment Maturity 6 months or <u>less</u>
Repurchase agreements	\$ 11,723,890	\$ 11,723,890
	<u>\$ 11,723,890</u>	<u>\$ 11,723,890</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The federal agency securities that underlie the City's repurchase agreements were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase agreements	<u>\$ 11,723,890</u>	<u>100.00%</u>
Total	<u>\$ 11,723,890</u>	<u>100.00%</u>

D. Reconciliation of Cash to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash as reported on the statement of net assets as of December 31, 2007:

<u>Cash and investments per footnote</u>	
Carrying amount of deposits	\$ 8,015,137
Investments	11,723,890
Cash in segregated accounts	<u>21,708</u>
Total	<u>\$ 19,760,735</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 11,148,798
Business type activities	8,302,588
Agency funds	<u>309,349</u>
Total	<u>\$ 19,760,735</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2007, consisted of the following, as reported on the fund financial statements:

Transfer to nonmajor governmental fund from:	
Nonmajor governmental fund	<u>\$ 695</u>
Total transfers	<u>\$ 695</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.

Transfers between governmental activities are eliminated on the statement of activities.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 6.25% for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2007-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. 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, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2007 operations. The receivable is therefore offset by unearned revenue.

The full tax rate applied to real property and tangible personal property for the fiscal year ended December 31, 2007 was \$8.20 per \$1,000 of assessed valuation.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 6 – TAXES – (Continued)

Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

The assessed values upon which the 2007 taxes were collected are as follows:

Real property tax	\$ 230,981,890
Tangible personal property	19,189,085
Public utility tangible personal property	<u>12,857,380</u>
Total	<u>\$ 263,028,355</u>

B. Municipal Income Tax

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

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

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2007, 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, 2007, as well as intended to finance fiscal 2007 operations.

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

Governmental Activities:

Income taxes	\$2,018,604
Real and other taxes	1,871,529
Accounts	6,338
Special assessments	90,607
Due from other governments	2,725,735

Business-type Activities:

Accounts	1,793,982
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CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 7 – RECEIVABLES – (Continued)

Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within the subsequent year, with the exception of special assessments which will be collected over the life of the assessment.

NOTE 8 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities have been restated due to retroactive reporting of infrastructure. The effect on capital assets is as follows:

	Balance		Restated
	<u>12/31/06</u>	<u>Adjustments</u>	<u>Balance</u>
<u>Governmental Activities:</u>			<u>12/31/06</u>
Land	\$ 296,013		\$ 296,013
Construction in progress	264,610	-	264,610
Buildings	2,776,366	-	2,776,366
Improvements	1,593,333	-	1,593,333
Equipment	900,048	-	900,048
Vehicles	3,925,992	-	3,925,992
Infrastructure	9,771,335	18,888,388	28,659,723
Less: accumulated depreciation	<u>(6,183,727)</u>	<u>(14,372,869)</u>	<u>(20,556,596)</u>
Total	<u>\$ 13,343,970</u>	<u>\$ 4,515,519</u>	<u>\$ 17,859,489</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 8 - CAPITAL ASSETS – (Continued)

B. Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Governmental Activities:</u>	Restated Balance <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 296,013	\$ 41,000	\$ (2,901)	\$ 334,112
Construction in progress	<u>264,610</u>	<u>840,104</u>	<u>(868,728)</u>	<u>235,986</u>
Total capital assets, not being depreciated	<u>560,623</u>	<u>881,104</u>	<u>(871,629)</u>	<u>570,098</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,776,366	-	-	2,776,366
Improvements	1,593,333	78,935	(47,364)	1,624,904
Equipment	900,048	154,812	(84,330)	970,530
Vehicles	3,925,992	221,938	(50,000)	4,097,930
Infrastructure	<u>28,659,723</u>	<u>868,728</u>	<u>-</u>	<u>29,528,451</u>
Total capital assets, being depreciated	<u>37,855,462</u>	<u>1,324,413</u>	<u>(181,694)</u>	<u>38,998,181</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(1,208,999)	(53,179)	-	(1,262,178)
Improvements	(842,555)	(75,655)	17,352	(900,858)
Equipment	(415,160)	(75,749)	47,132	(443,777)
Vehicles	(2,528,571)	(181,889)	50,000	(2,660,460)
Infrastructure	<u>(15,561,311)</u>	<u>(1,144,200)</u>	<u>-</u>	<u>(16,705,511)</u>
Total accumulated depreciation	<u>(20,556,596)</u>	<u>(1,530,672)</u>	<u>114,484</u>	<u>(21,972,784)</u>
Total capital assets, being depreciated, net	<u>17,298,866</u>	<u>(206,259)</u>	<u>(67,210)</u>	<u>17,025,397</u>
Governmental activities capital assets, net	<u>\$ 17,859,489</u>	<u>\$ 674,845</u>	<u>\$ (938,839)</u>	<u>\$ 17,595,495</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/07</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 36,000	\$ 30,000	\$ -	\$ 66,000
Construction in progress	<u>19,347,786</u>	<u>8,591,032</u>	<u>(24,134,617)</u>	<u>3,804,201</u>
Total capital assets, not being depreciated	<u>19,383,786</u>	<u>8,621,032</u>	<u>(24,134,617)</u>	<u>3,870,201</u>
<i>Capital assets, being depreciated:</i>				
Buildings	6,057,681	23,946,497	-	30,004,178
Improvements	21,835	-	-	21,835
Equipment	257,630	125,979	(5,500)	378,109
Vehicles	1,163,157	257,931	-	1,421,088
Infrastructure	<u>14,825,402</u>	<u>284,194</u>	<u>-</u>	<u>15,109,596</u>
Total capital assets, being depreciated	<u>22,325,705</u>	<u>24,614,601</u>	<u>(5,500)</u>	<u>46,934,806</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,168,558)	(278,364)	-	(5,446,922)
Improvements	(910)	(437)	-	(1,347)
Equipment	(109,790)	(20,820)	3,117	(127,493)
Vehicles	(846,500)	(338,271)	-	(1,184,771)
Infrastructure	<u>(826,823)</u>	<u>(52,618)</u>	<u>-</u>	<u>(879,441)</u>
Total accumulated depreciation	<u>(6,952,581)</u>	<u>(690,510)</u>	<u>3,117</u>	<u>(7,639,974)</u>
Total capital assets, being depreciated, net	<u>15,373,124</u>	<u>23,924,091</u>	<u>(2,383)</u>	<u>39,294,832</u>
Business-type activities capital assets, net	<u>\$ 34,756,910</u>	<u>\$ 32,545,123</u>	<u>\$ (24,137,000)</u>	<u>\$ 43,165,033</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 8 - CAPITAL ASSETS - (Continued)

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

Governmental Activities:

General government	\$ 183,294
Security of persons and property	120,292
Transportation	1,144,200
Public health and welfare	1,292
Leisure time activity	<u>81,594</u>
Total depreciation expense - governmental activities	<u>\$ 1,530,672</u>

Business-type Activities:

Water	\$ 565,263
Sewer	74,196
Refuse	<u>51,051</u>
Total depreciation expense - business-type activities	<u>\$ 690,510</u>

NOTE 9 - 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 personnel are credited with 120 hours at the beginning of each year and fire department personnel are credited with 168 hours. There is no limit to the amount employees 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, 2007 was \$1,608,054.

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 2007. The enrollment period for the plan was between July 25, 2007 and September 30, 2007. 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, 2007 was \$102,520. 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, 2007

NOTE 10 - LEASES

A. Governmental Capital Leases - Lessee Disclosure

In prior years, the City entered into capitalized lease agreements for office equipment and copiers. In 2007, the City entered into two new 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 \$59,933. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2007 was \$27,443, leaving a current book value of \$32,490. A corresponding liability was recorded in the statement of net assets. Principal payments in fiscal year 2007 totaled \$9,543 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, 2007:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 12,403
2009	7,755
2010	6,843
2011	5,930
2012	<u>1,826</u>
Total	34,757
Less: amount representing interest	<u>(4,744)</u>
Present value of net minimum lease payments	<u>\$ 30,013</u>

B. Proprietary Capital Lease - Lessee Disclosure

In a prior year, capital assets consisting of backhoe equipment have been capitalized in the sewer enterprise fund. This lease agreement meets 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. Capital assets consisting of backhoe equipment have been capitalized in the amount of the \$52,131. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2007 was \$14,480, leaving a current book value of \$37,651. A corresponding liability was recorded in the sewer enterprise fund. Principal payments in fiscal year 2007 totaled \$9,825.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - LEASES - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2007:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 10,665
Total	10,665
Less: amount representing interest	<u>(369)</u>
Present value of net minimum lease payments	<u>\$ 10,296</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During 2007, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/07</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Loans:</u>						
State Rt. 22 (ODOT)	0%	\$ 194,931	\$ -	\$ -	\$ 194,931	\$ 150,000
State Rt. 22 (ODOT)	0%	53,463	-	-	53,463	37,752
Sunset Blvd (ODOT)	3.00%	893,003	-	(34,623)	858,380	35,755
Phone system loan	4.38%	44,415	-	(15,539)	28,876	16,231
Electrical truck loan	3.75%	59,191	-	(21,367)	37,824	22,186
Route 43 project	4.69%	514,537	-	(37,671)	476,866	52,350
Total loans		<u>1,759,540</u>	<u>-</u>	<u>(109,200)</u>	<u>1,650,340</u>	<u>314,274</u>
<u>Other long-term liabilities:</u>						
Police and fire pension liability		2,113,575	-	(39,316)	2,074,259	41,004
Municipal development note		-	750,000	(68,136)	681,864	140,625
Capital lease obligation		15,150	24,406	(9,543)	30,013	10,334
Compensated absences		1,494,113	177,012	(289,597)	1,381,528	41,034
Total other long-term liabilities		<u>3,622,838</u>	<u>951,418</u>	<u>(406,592)</u>	<u>4,167,664</u>	<u>232,997</u>
Total governmental activities long-term liabilities		<u>\$ 5,382,378</u>	<u>\$ 951,418</u>	<u>\$ (515,792)</u>	<u>\$ 5,818,004</u>	<u>\$ 547,271</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.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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.

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 \$15,539 were made during 2007. 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 funds, which are nonmajor governmental funds. Principal payments of \$21,367 were made during 2007. 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.

Municipal Development Note - The municipal development note was issued in 2007 to pay costs of the demolition and site preparation development project in the City. The note matures in 2012 and is paid by the special assessment fund, a nonmajor governmental fund.

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

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

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
2008	\$ 223,507	\$ 25,485	\$ 248,992	\$ 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	39,386	22,134	61,520	60,210	13,619	73,829
2012	40,677	20,943	61,620	63,084	10,745	73,829
2013 - 2017	224,269	85,434	309,703	188,906	16,447	205,353
2018 - 2022	263,495	49,224	312,719	-	-	-
2023 - 2025	179,733	9,563	189,296	-	-	-
Totals	<u>\$ 1,106,774</u>	<u>\$ 260,474</u>	<u>\$ 1,367,248</u>	<u>\$ 476,866</u>	<u>\$ 94,631</u>	<u>\$ 571,497</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year</u>	<u>Equipment Loans</u>			<u>Police & Fire Pension</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 38,417	\$ 2,128	\$ 40,545	\$ 41,004	\$ 87,725	\$ 128,729
2009	28,283	551	28,834	42,767	85,964	128,731
2010	-	-	-	44,603	84,127	128,730
2011	-	-	-	46,518	82,212	128,730
2012	-	-	-	48,518	80,213	128,731
2013 - 2017	-	-	-	275,689	367,958	643,647
2018 - 2022	-	-	-	340,207	303,443	643,650
2023 - 2027	-	-	-	419,819	223,829	643,648
2028 - 2032	-	-	-	518,063	125,784	643,847
2033 - 2035	-	-	-	297,071	18,963	316,034
Totals	<u>\$ 66,700</u>	<u>\$ 2,679</u>	<u>\$ 69,379</u>	<u>\$ 2,074,259</u>	<u>\$ 1,460,218</u>	<u>\$ 3,534,477</u>

<u>Year</u>	<u>Municipal Development Note</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 140,625	\$ 27,371	\$ 167,996
2009	146,636	21,360	167,996
2010	152,904	15,092	167,996
2011	159,441	8,555	167,996
2012	82,258	1,740	83,998
Totals	<u>\$ 681,864</u>	<u>\$ 74,118</u>	<u>\$ 755,982</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2007, the following changes occurred in the business-type activities long-term obligations:

	Interest Rate	Balance 12/31/06	Additions	Retirements	Balance 12/31/07	Amount Due in One Year
<u>OWDA loans:</u>						
Sewer - OWDA #3495	3.20%	\$ 14,760	\$ -	\$ (14,760)	\$ -	\$ -
Sewer - OWDA #3868	3.53%	196,140	-	(14,941)	181,199	15,473
Sewer - OWDA #4791	4.11%	-	39,600	-	39,600	-
Water - OWDA #3441	3.90%	6,791,035	-	(252,635)	6,538,400	328,042
Water - OWDA #3459	3.20%	620,465	-	(369,052)	251,413	251,413
Water - OWDA #3686	3.95%	3,541,160	-	(138,161)	3,402,999	149,707
Water - OWDA #3734	3.20%	315,586	-	(315,586)	-	-
Water - OWDA #4427	3.25%	13,325,199	9,442,326	(465,818)	22,301,707	800,000
Total OWDA loans		<u>24,804,345</u>	<u>9,481,926</u>	<u>(1,570,953)</u>	<u>32,715,318</u>	<u>1,544,635</u>
<u>OPWC loans:</u>						
Sewer - OPWC #CN28D	0.00%	184,120	-	(23,015)	161,105	23,015
Water - OPWC #CN523	0.00%	52,852	-	(5,872)	46,980	5,873
Water - OPWC #CN729	0.00%	63,612	-	(6,058)	57,554	6,057
Water - OPWC #CN038	0.00%	230,788	-	(14,889)	215,899	14,890
Total OPWC loans		<u>531,372</u>	<u>-</u>	<u>(49,834)</u>	<u>481,538</u>	<u>49,835</u>
<u>Loan:</u>						
Sewer improvement	4.60%	145,816	-	(10,625)	135,191	14,765
Total loan		<u>145,816</u>	<u>-</u>	<u>(10,625)</u>	<u>135,191</u>	<u>14,765</u>
<u>General obligation notes:</u>						
Refuse - garbage packer	3.71%	16,257	-	(16,257)	-	-
Refuse - garbage packer - 2006	5.20%	119,000	-	(21,421)	97,579	22,550
Total general obligation notes		<u>135,257</u>	<u>-</u>	<u>(37,678)</u>	<u>97,579</u>	<u>22,550</u>
<u>Bond anticipation note:</u>						
Sewer - Permars Run note - 2006	4.12%	652,000	-	-	652,000	652,000
Total bond anticipation note		<u>652,000</u>	<u>-</u>	<u>-</u>	<u>652,000</u>	<u>652,000</u>
<u>General obligation bonds:</u>						
Water improvement bonds	4.30%	955,000	-	(105,000)	850,000	105,000
Water improvement bonds	5.45%	1,028,393	-	(32,275)	996,118	34,034
Sewer improvement bonds	5.45%	1,262,591	-	(39,448)	1,223,143	41,597
Total general obligations bonds		<u>3,245,984</u>	<u>-</u>	<u>(176,723)</u>	<u>3,069,261</u>	<u>180,631</u>
<u>Other long-term liabilities:</u>						
Capital lease obligation	4.75%	20,121	-	(9,825)	10,296	10,296
Compensated absences	n/a	429,058	31,097	(131,109)	329,046	61,486
Landfill closure/postclosure	n/a	5,131,025	-	(123,364)	5,007,661	-
Total other long-term liabilities		<u>5,580,204</u>	<u>31,097</u>	<u>(264,298)</u>	<u>5,347,003</u>	<u>71,782</u>
Total business-type long-term obligations		<u>\$ 35,094,978</u>	<u>\$ 9,513,023</u>	<u>\$ (2,110,111)</u>	<u>\$ 42,497,890</u>	<u>\$ 2,536,198</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - 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, 2007, the City has outstanding borrowings of \$32,715,318. 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 Water Storage Improvement (#3686) and Transmission Mains and Raw Water Pumping Facilities (#3441) projects are the only two loans which have been closed out as of December 31, 2007. Future annual debt service principal and interest requirements for the open loans, which have a total balance of \$22,773,919 at December 31, 2007, are not available.

OPWC Loans - During 2003, the City was granted a \$230,150 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. As of December 31, 2007, the loan has a balance of \$161,105. 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 loans. 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%. During 2006, the City issued a note for \$119,000 in the refuse fund to finance the purchase of another garbage packer. This note matures in 2011 and has an interest rate of 5.20%.

Bond Anticipation Note - During 2006 the City issued a note in the sewer fund in anticipation of the issuance of bonds to pay costs of the Permars Run Relief Sewer Design Project totaling \$652,000. The note bears an interest rate of 4.12% and is due on December 8, 2008.

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. The bonds will be retired with user charges in the water and sewer funds.

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

Capital Lease Obligation - See Note 10.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, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

<u>Year</u>	<u>OPWC Loans</u>			<u>OWDA Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 49,835	\$ -	\$ 49,835	\$ 477,749	\$ 384,784	\$ 862,533
2009	49,834	-	49,834	496,638	365,895	862,533
2010	49,834	-	49,834	516,275	346,257	862,532
2011	49,834	-	49,834	536,689	325,844	862,533
2012	49,834	-	49,834	557,910	304,622	862,532
2013 - 2017	165,358	-	165,358	3,138,421	1,174,242	4,312,663
2018 - 2022	67,009	-	67,009	3,809,937	502,725	4,312,662
2023 - 2024	-	-	-	407,780	16,212	423,992
Totals	\$ 481,538	\$ -	\$ 481,538	\$ 9,941,399	\$ 3,420,581	\$ 13,361,980

<u>Year</u>	<u>General Obligation Bonds</u>			<u>Sewer Loan</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 180,631	\$ 156,744	\$ 337,375	\$ 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	208,684	129,158	337,842	16,982	3,841	20,823
2012	218,517	119,118	337,635	17,793	3,031	20,824
2013 - 2017	824,823	448,053	1,272,876	53,972	3,970	57,942
2018 - 2022	716,894	266,011	982,905	-	-	-
2023 - 2025	530,858	58,887	589,745	-	-	-
Totals	\$ 3,069,261	\$ 1,464,768	\$ 4,534,029	\$ 135,191	\$ 26,868	\$ 162,059

<u>Year</u>	<u>Refuse Garbage Packer Notes</u>			<u>Sewer Permars Note</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 22,550	\$ 4,785	\$ 27,335	\$ 652,000	\$ 25,183	\$ 677,183
2009	23,737	3,597	27,334	-	-	-
2010	24,988	2,346	27,334	-	-	-
2011	26,304	1,030	27,334	-	-	-
Totals	\$ 97,579	\$ 11,758	\$ 109,337	\$ 652,000	\$ 25,183	\$ 677,183

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. 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, 2007, the City's total debt margin was \$25,877,856 and the unvoted debt margin was \$13,813,176.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

B. Health Insurance

The City provides health care coverage through a self-insured program administered by Health Assurance. The City pays 100% of the monthly medical claims for full-time and part-time employees. The City's insurance claims are transferred from various funds to the health care fund. Monthly, the administrator bills the City for an administrative fee and the amount of claims paid. The City issues a check from the general, water, sewer, refuse and community development funds for the administrative fee and a check from the health care fund for the amount of claims paid.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - RISK MANAGEMENT – (Continued)

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, 2007, is estimated by the third party administrator at \$201,402. The changes in the claims liability for 2007 and 2006 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>
2007	\$ 59,263	\$ 1,630,102	\$ (1,487,963)	\$ 201,402
2006	98,359	1,541,961	(1,581,057)	59,263

C. Workers’ Compensation

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

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

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

NOTE 13 - 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 Pension 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$820,863, \$787,756, and \$913,407, respectively; 89.87% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. \$83,190 represents the unpaid contribution for 2007, which has been recorded as a liability within the respective funds.

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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.5% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions to OP&F for police officers and firefighters were \$462,918 and \$500,150 for the year ended December 31, 2007, \$459,797 and \$484,674 for the year ended December 31, 2006, and \$455,124 and \$493,216 for the year ended December 31, 2005. The full amount has been contributed for 2007 and 2006. 75.54% has been contributed for police and firefighters for 2007 with the remainder of \$235,539 being reported as a liability in the respective funds.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - POST-EMPLOYMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension 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 post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.50%, 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 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 5.00% for the next eight years. In subsequent years, (nine and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the Traditional Pension and Combined Plans was 374,979 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$325,974. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 (the latest information available) were \$12.0 billion. At December 31, 2006 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - POST-EMPLOYMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post-employment 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 OP&F is considered an Other Post-employment Benefit 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 OP&F'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 6.75% of covered payroll was applied to the post-employment health care program during 2007. 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 2007 that were used to fund post-employment benefits were \$160,170 for police officers and \$140,542 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006 (the latest information available), was 14,120 for police officers and 10,563 for firefighters.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$(1,587,448)
Net adjustment for revenue accruals	(871,577)
Net adjustment for expenditure accruals	805,438
Net adjustment for other sources	24,406
Adjustment for encumbrances	<u>2,005,318</u>
GAAP basis	<u>\$ 376,137</u>

NOTE 16 - LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its municipal landfill site and to perform certain maintenance and monitoring functions at the closed landfill site for thirty years after closure. The landfill is no longer being used; however, the final cover as required by state and federal laws has not been placed on the landfill. The first phase of placing the final cover on the landfill began 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, 2006 the landfill outstanding balance was \$5,131,025. Expenses in the amount of \$123,364 were made during 2007, which decreased the estimated liability to \$5,007,661.

NOTE 17 - WATER AND WASTEWATER COMPLIANCE

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

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2007.

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.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

July 31, 2008

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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2008.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-004 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

City of Steubenville, Ohio
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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above as item 2007-004 is 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 July 31, 2008.

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 or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs and responses as items 2007-001 through 2007-003.

We also noted certain matters that we reported to management of the City in a separate letter dated July 31, 2008.

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

Hea & Associates, Inc.



Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

122 4th St. NW | PO Box 1020
New Philadelphia, OH 44663-5120

July 31, 2008

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, 2007. 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 2007-005 and 2007-006 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding allowed costs and reporting that are applicable to its CDBG Entitlement Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that grant.

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, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2007-006 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2007-006 to be a material weakness.

The City's response to the findings identified in our audit are described in the accompanying Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, 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, 2007**

FEDERAL GRANTOR/PASS THROUGH GRANTOR - PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT/ PASS- THROUGH ENTITY NUMBER	DISBURSEMENTS
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant Entitlement Grants	14.218	B05-MC-39-0020	\$ 609,666
Total U.S. Department of Housing and Urban Development			<u>\$ 609,666</u>
<u>U.S. Department of Agriculture:</u>			
Passed-Through Ohio Department of Education:			
Summer Food Program	10.559		\$ 93,413
Total U.S. Department of Agriculture			<u>\$ 93,413</u>
<u>U.S. Department of Transportation:</u>			
Passed-Through Ohio Department of Transportation:			
Highway Planning and Construction	20.205	PID # 78886	\$ 161,533
Total U.S. Department of Transportation			<u>\$ 161,533</u>
Total Federal Financial Assistance			<u>\$ 864,612</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards 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 AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(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 internal control deficiencies 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 other internal control deficiencies reported for major programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion CFDA # 14.218 Community Development Block Grant - Entitlement	Qualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	Yes
(d) (1) (vii)	Major Programs (list): Community Development Block Grant - Entitlement	CFDA # 14.218
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

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

Non-Compliance Citations

Finding Number	2007-001
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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 2007:

General Fund (01): July - \$476,794

Summer Food Program Fund (28): July - \$5,267

Sewer Fund (51): January - \$671,494; February - \$499,915; March - \$320,146; April \$111,703

Community Development (70): May - \$21,026; July - \$12,206

Wastewater – Capital Projects Fund (82): September - \$31,346, October - \$65,271; November - \$65,271

City’s Response: See Corrective Action Plan.

Finding Number	2007-002
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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.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2007-002 (continued)
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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.
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.

During 2007 the City had numerous invoices being paid before the purchase order containing the 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.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2007-003
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. We tested the months of March and October 2007 to determine if all amounts at the legal level of control, i.e. department level per the City Charter, were properly appropriated. We noted several instances where the expenditures plus encumbrances exceeded the appropriation in the following City departments:

Fund	Department - Name and Number	Amount
March Testing		
(01) General	Recreation Golf (23)	\$ 18,692
(04) State Highway	State Highway (35)	16,130
(83) Sanitation Cap Proj	Sanitation (50)	17,313
October Testing		
(01) General	Civil Service (04)	21,324
(01) General	Council (10)	4,895
(01) General	Assistance to the Needy (20)	550
(01) General	Recreation Pool (22)	10,890
(01) General	Recreation Golf (23)	20,156
(04) State Highway	State Highway (35)	34,110
(06) .7% CIT - Equip Impr	.7% CIT - Equip Impr (38)	77,768
(10) Fire Damage Removal	Fire Damage Removal (62)	12,084
(11) Convention and Visitors Bureau	Convention and Visitors Bureau (63)	12,839
(32) Special Assessments	General Bond Retirement (57)	86,000
(32) Special Assessments	Special Assessments (58)	69,855
(50) Water Fund	Water Distribution (42)	33,633
(50) Water Fund	Capital Improvement (49)	1,500
(52) Refuse Fund	General Bond Retirement (57)	15
(80) General Cap Proj	Community Development (55)	493
(82) Wastewater Cap Proj	Capital Improvement (49)	1,163
(83) Sanitation Cap Proj	Sanitation (50)	86,826

By allowing the departments to spend above the appropriated amount, the City is not sufficiently controlling the budget or approving expenditures. This could lead to unallowed expenses and possibly misappropriation of City assets.

We also noted at year end that four funds had expenditures exceeding appropriations. These funds were Water Operating, \$320,896, Sewer Operating, \$11,330; Water Capital Projects, \$1,225,934 and Sewer Capital Projects, \$497.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2007-003 (continued)
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We recommend the City not allow expenses plus encumbrances to exceed the amount appropriated. Council and management should be monitoring the budget verses actual numbers monthly and amending the appropriations measures as necessary.

City's Response: See Corrective Action Plan.

Finding Number	2007-004
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Material Weakness

The City enters capital assets, particularly construction in progress (CIP), into the computer system without any reconciliation procedures in place. CIP is entered into the system without comparing to engineer's department listing of project costs. Also, projects may be completed but not all costs associated with the projects are removed from CIP.

Consequently, assets can be entered for inaccurate cost amounts. Amounts in CIP might include costs associated with projects that have already been completed and/or amounts transferred out of CIP are incomplete and do not include all costs. As a result, audit adjustments were required and posted.

We recommend amounts entered into the SSI system be reconciled to the engineer's (or the respective department) files to ensure that all costs are being included in CIP additions as well as CIP deletions. Also, assets entered into the SSI system should include the Engineering Department's project ID# as well as the project description in order to make identification of the completed asset easier when transferred out of CIP. This will make individual project costs more identifiable and ensure that capital assets reported on the financial statements are complete and accurate.

City's Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2007-005
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Non-compliance

Program Information:

CFDA #14.218 Community Development Block Grant – Entitlement Program
US Department of Housing and Urban Development
Direct Award

Criteria:

OMB Circular A-87, Attachment B, paragraph 8 d(5) indicates for fringe benefits (including health insurance) "such benefits, whether treated as indirect costs or direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities."

Condition:

The City has established percentages allocated to various funds for all employees in the Development and Planning Department. The City has been allocating wages according to these percentages, however, the application of health insurance benefits are not consistent with these percentages.

Context:

The Director and secretary wages are allocated 60% and 75% to the CDBG grant with the remainder charged to the Planning Department. The insurance premiums are charged 100% to the CDBG grant.

Effect:

The unallowed cost charged to the federal grant was \$7,575 for 2007.

Recommendation:

We recommend the City establish a procedure that will comply with the OMB Circular A-87 requirements for verifying the allocation of costs for health insurance premiums. This could include a calculation when the premium is established that conforms to the salary allocation for employees of the Department.

City's Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2007

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (continued)

Finding Number	2007-006
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Material Weakness

Program Information:

CFDA #14.218 Community Development Block Grant – Entitlement Program
US Department of Housing and Urban Development
Direct Award

Criteria:

The grant requires the City to file quarterly cash transaction reports which indicate the activity of the grant for each quarter.

Condition:

The City does not have a process in place to ensure required Cash Transaction reports are completed, reviewed and submitted on a timely basis.

Context:

There was no evidence of completion or filing of the required Quarterly Cash Transaction reports for 2007. The Community Development Director had to call HUD to determine if the reports were sent. HUD's response was that they had not received any of the 2007 reports.

Recommendation:

Improvement is required in the area of management oversight in the quarterly reporting process. Management should set up a system so they are made aware of upcoming deadlines (ticklers, pop-up calendar reminders, etc.) and remind staff that these reports are to be completed. Review of the information should be done and copies of reports should be maintained in files that are easily accessed by management.

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, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	Ohio Revised Code Section 5705.10, various City funds had negative fund balances.	No	Re-issued as Finding 2007- 001
2006-002	Ohio Revised Code Section 5705.41(D), failure to properly certify expenditures.	No	Re-issued as Finding 2007-002
2006-003	Ohio Revised code Section 5705.41(B), expenditures plus encumbrances exceeded appropriations	No	Re-issued as Finding 2007-003
2006-004	HOME Investment Partnership Program – no process in place to monitor sub-recipient for tenant-based rental assistance program.	Yes	
2006-005	HOME Investment Partnership Program – no process in place to review the accuracy of the billings for the tenant-based rental assistance program.	Yes	



City of Steubenville

Finance Office

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CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2007 AUDIT FINDINGS

2007-001 Ohio Rev. Code Section 5705.10

The General Fund (01) incurred a deficit in July of 2007. This is mostly caused by the timing of recording expenditures. The General Fund receives reimbursements from other funds of the city. The timing of those reimbursements caused the negative cash balance in July of 2007.

The Summer Food Program (28) operated at a deficit because of timing issues in July. This grant is a reimbursement grant.

The Sewage Fund (51) had a negative fund balance during several months of the year. In 2005 a rate increase went in effect non-only to cover operating expenditures and debt service. By May of 2007, the sewer fund began operating at a surplus.

The Community Development Fund (70) incurred negative cash balances for two months in 2007. These negative balances were caused by the timing of recording journal entries.

The Wastewater Capital Projects Fund (82) incurred a deficit throughout the latter portion of the year due to capital projects that outspent the funding. At the end of the year, the Wastewater Fund (51) supplements the Wastewater Capital Project Fund.

2007-002 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.

2007-003 Ohio Administrative Code Section 5705.41 (B)

The City of Steubenville passed its permanent budget in March of 2007 and its final budget passed in December of 2007. Throughout the year, some substantial increases to the budgeted expenditures occurred. Some examples were: the decision to continue operations at the golf course, local match to various grants, additional



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street projects, and additional expenditures offset by increased revenue. In future years the City plans to amend the budget mid year in order to make necessary adjustments.

2007-004

The City of Steubenville is continually making improvements to the way we keep track and record capital assets. In 2008, the City plans on sending key personnel to additional training regarding capital assets and CIP.

2007-005

The City of Steubenville is going to allocate the health insurance consistent with the wages of the employees beginning in 2008.

2007-006

Per Christopher Petrossi, Urban Projects Director

Action: Pop-up calendar reminders detailing the upcoming deadlines for various required reports, including but not limited to Federal Cash Transaction Reports, will be placed on the computers of the Urban Projects Director, the Assistant Urban Projects Director and the Secretary/Financial Coordinator. The Secretary/Financial Coordinator will be responsible for preparing the report, which will then be reviewed by the Assistant Urban Projects Director and then the Urban Projects Director prior to submission to HUD or ODOD. All reports will be maintained in files at the Secretary/Financial Coordinator's work station for ease of accessibility.

Michael J. Marshall
Finance Director
City of Steubenville

7/30/08

Date



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 30, 2008**