



**Auditor of State
Betty Montgomery**

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Steubenville
Jefferson County
302 Market Street
Steubenville, Ohio 43952

To the City Council:

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, Jefferson County, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. The basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, except for the effect of such adjustments, if any as might have been determined to be necessary had we been able to examine information regarding health insurance claims, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Steubenville, Jefferson County, Ohio as of December 31, 2003, and the respective changes in financial position and the respective cash flows, where applicable, thereof and the applicable budgetary comparison for the General Fund, the City Street Improvement Fund, the Safety Fund and the Community Development Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, during the year ended December 31, 2003, the City implemented a financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2005, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Federal Award Expenditures provides additional information and is not a required part of the basic financial statements. We subjected the Schedule of Federal Award Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 26, 2005

**CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003**

As management of the City of Steubenville, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Steubenville for the fiscal year ended December 31, 2003. We encourage readers to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

The City adopted the reporting standards of GASB Statement No. 34 for the reporting period ended December 31, 2003. Because this is the first year the City is reporting governmental activities on an accrual basis of accounting in accordance with GASB Statement No. 34, revenue and expense comparisons to 2002 are not available.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Steubenville's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator or whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, public health services, transportation, community development, basic utilities and leisure-time activities. The business-type activities include water, sanitary sewer services and refuse.

**CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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, use 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.

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 funds financial statements focus on the near-term inflows and outflows of *spendable resources*, as well as on *balance of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of 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, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds 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 30 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, the street improvement fund, the safety fund, the community development fund and the general bond retirement fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The City adopts an annual appropriated budget for its general fund and for each of its special revenue funds. A budgetary comparison statement has been provided for the general fund, the street improvement fund, the safety fund and the community development fund to demonstrate compliance with the budget.

Proprietary Funds

The City maintains two different types of propriety 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, wastewater, and sanitation operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its Health Care. Because the services provide by these funds predominantly benefit the governmental rather than the business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water operations, sanitary sewer operations and the refuse operations, as these are considered major funds. The internal service fund is presented in a single column in the proprietary fund financial statements.

**CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. 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.

Notes to the 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.

Governmental Activities

Several types of revenues fund our governmental activities with the City income tax being the biggest contributor. The income tax was 2.0 percent for 2003, the same as the prior year. Both residents of the City and non-residents who work inside the City are subject to the income tax. However, if residents work in a locality that has a municipal income tax, the City has provided a 100 percent credit up to 2.0 percent for those who pay income tax to another City. The City Council could, by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

The total Income Tax Revenue for 2003 was \$9,284,052 of the \$18,240,765 in total revenues, income tax accounts for 51% of that total. Property taxes of \$1,701,078 account for 9% of total revenues and charges for services and other revenue make up the remaining 40% percent.

General revenues from entitlements, such as local government funds, are also revenue generators. With the combination of property tax, income tax and intergovernmental funding, all expenses in the governmental activities are funded. The City monitors its sources of revenues very closely for fluctuations.

For the most part, increase in expenses closely parallel inflation and growth in the demand for services. The largest program function for the City relates to the security of persons and property. During 2003, 40% of program expenses related to safety forces, which include the police and fire departments.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related 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 a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the City of Steubenville. At December 31, 2003, unreserved fund balance of the general fund was (\$691,046) while total fund balance was \$1,442,384. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

**CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

The fund balance of the City's general fund when compared to 2002 decreased by \$1,096,869 during 2003. Key factors in this decline are as follows:

- \$400,000 Increase in hospitalization
- \$100,000 Increase in police department
- \$200,000 Shortfall of estimated real estate and personal property taxes

General Fund Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of 2003, the City amended its general fund quarterly. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City does allow small interdepartmental budget changes that modify line items within the same fund. The general fund supports many of our major activities such as our Police Department, Fire Departments, Maintenance and Repair Department, and Recreation Department, as well as most legislative and executive activities. The general fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

For the general fund, original budgeted revenues (including other financing sources) were \$13,166,235. The final budgeted revenue amount (including other financing sources) was \$13,106,883. Original general fund budgeted expenditures (including other financing uses) were \$13,188,561, and the final amended budgeted expenditures (including other financing uses) were \$13,494,730. Actual general fund expenditures were \$15,625,333 or \$2,130,603 more than was originally budgeted.

Capital Assets

In previous years, the city of Steubenville did not record fixed assets in our financial reports. 2003 is the first year the city of Steubenville has recorded any asset on its financial statements.

Debt Management

As of December 31, 2003, the City of Steubenville had total general obligation debt outstanding in the principal amount of \$1,670,451. \$1,613,950 of which is to be repaid through governmental activities and \$56,501 repaid through business type activities. The amount of debt acquired in the year 2003 was \$56,501 which was for the wastewater fund.

As of December 31, 2003, the City of Steubenville had total principal outstanding amounts for enterprise type funds of \$15,612,195. All of which is to be repaid through business types activities. An addition of \$4,660,080 in the year 2003 was attributable to the various EPA mandated water and wastewater capital projects which was borrowed from OWDA, OPWC, and local banks.

In April 2005, bonds were issued to cover the overrun of project expenditures for various water and wastewater EPA mandated projects. The amount of the bond issue was \$1,120,000.

In addition to the above debt, the city's long-term obligations included compensated absences and police and fire pension liabilities.

**CITY OF STEUBENVILLE, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Economic Factors and Next Year's General Fund Budget

The City's elected and appointed officials considered many factors when setting the fiscal year 2003 budget. The events of September 11, 2001 and the impact of those events on the economy had a significant influence on the objectives that the City set for the 2003 budget: jobs, safety, and long-term fiscal stability. With the uncertainty surrounding the economy, the City considered the impact on two primary revenues sources: income tax revenue and state shared revenue. City Council decided that it was important to: 1) continue the City's investment in job creation; 2) put the highest premium on safety for the people of the City and City employees; and 3) adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2003 budget, the City recognized the need to continue its pattern of cost containment while pursuing new revenue sources.

The 2003 general fund revenue budget was originally \$13,116,235. Downward pressures on 2003 estimated revenues, especially in the areas of shared revenue support from the state, stagnate income tax collections, a continued decline in interest rates causing a decrease in investment earnings resulted in a decrease of revenue of \$497,452,54. Further cost containment and/or revenue enhancement actions will be necessary. With prudent fiscal management and careful planning, the City of Steubenville will continue to maintain its finances in a conscientious manner to bring us in line with being excellent stewards of the City's assets.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Steubenville's finances and to show accountability for the money it receives, spends or invests. If you have any questions about this report or need financial information contact Director of Finance, Michael J. Marshall, City of Steubenville, 304 Market Street, Steubenville, Ohio 43952, telephone (740) 283-6000 extension 1300.

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**CITY OF STEUBENVILLE, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2003**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Equity in pooled cash and cash equivalents	\$ 5,847,292	\$ 3,313,038	\$ 9,160,330
Accounts receivable	-	1,838,640	1,838,640
Intergovernmental receivable	197,406	-	197,406
Municipal taxes receivable	2,590,752	-	2,590,752
Property and other taxes	1,608,790	-	1,608,790
Due From Other Funds	2,338,101	-	2,338,101
Inventory	262,992	-	262,992
Prepaid items	10,655	8,161	18,816
Nondepreciable capital assets	6,709,541	15,703,050	22,412,591
Depreciable capital assets, net	<u>3,950,860</u>	<u>1,570,034</u>	<u>5,520,894</u>
Total assets	<u>23,516,389</u>	<u>22,432,923</u>	<u>45,949,312</u>
Liabilities			
Accounts payable	386,685	148,803	535,488
Accrued wages	166,193	53,636	219,829
Intergovernmental payable	802,222	213,263	1,015,485
Due To Other Funds	-	2,338,101	2,338,101
Accrued interest payable	12,300	7,670	19,970
Deferred revenue	1,741,801	-	1,741,801
Long-term liabilities:			
Due within one-year	170,123	2,493,827	2,663,950
Due in more than one-year	<u>4,790,210</u>	<u>18,882,024</u>	<u>23,672,234</u>
Total liabilities	<u>8,069,534</u>	<u>24,137,324</u>	<u>32,206,858</u>
Net Assets			
Invested in capital assets, Net of related debt	8,989,950	1,660,889	10,650,839
Restricted for:			
Debt service	1,676,511	-	1,676,511
Capital projects	-	672,331	672,331
Other purposes	2,175,397	-	2,175,397
Unrestricted	<u>2,604,997</u>	<u>(4,037,621)</u>	<u>(1,432,624)</u>
Total Net Assets	<u>\$15,446,855</u>	<u>\$ (1,704,401)</u>	<u>\$13,742,454</u>

See accompanying notes to the basic financial statements.

**CITY OF STEUBENVILLE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Security of Persons and property	\$ 6,637,134	\$ 7,098	\$ 25,475	\$ -	\$ (6,604,561)	\$ -	\$ (6,604,561)
Public health and welfare	483,774	-	27,055	-	(456,719)	-	(456,719)
Leisure time activities	1,252,440	129,212	189,433	-	(933,795)	-	(933,795)
Community development	1,714,799	-	191,791	2,160,102	637,094	-	637,094
Transportation	2,177,323	-	20,064	-	(2,157,259)	-	(2,157,259)
General government	4,291,920	44,056	51,724	-	(4,196,140)	-	(4,196,140)
Interest and fiscal charges	59,187	-	-	-	(59,187)	-	(59,187)
Total Government Activities	<u>16,616,577</u>	<u>180,366</u>	<u>505,542</u>	<u>2,160,102</u>	<u>(13,770,567)</u>	<u>-</u>	<u>(13,770,567)</u>
Business-Type Activities:							
Water	2,904,483	4,391,282	-	-	-	1,486,799	1,486,799
Sewer	2,430,305	2,946,954	-	236,654	-	753,303	753,303
Refuse	1,435,658	1,585,341	-	-	-	149,683	149,683
Total business-type activities	<u>6,770,446</u>	<u>8,923,577</u>	<u>-</u>	<u>236,654</u>	<u>-</u>	<u>2,389,785</u>	<u>2,389,785</u>
Total	<u>\$23,387,023</u>	<u>\$9,103,943</u>	<u>\$505,542</u>	<u>\$2,396,756</u>	<u>(13,770,567)</u>	<u>2,389,785</u>	<u>(11,380,782)</u>
General Revenues:							
Property taxes levied for:							
General purposes					1,148,257	-	1,148,257
Special revenue					203,203	-	203,203
Debt service					349,618	-	349,618
Income taxes levied for:							
General purposes					8,402,304	-	8,402,304
Special revenue					881,748	-	881,748
Other taxes for:							
General purposes					1,352,889	-	1,352,889
Special revenue					946,005	-	946,005
Grants and entitlements not restricted to specific programs					1,307,095	-	1,307,095
Operating refunds and reimbursements					709,214	337,448	1,046,662
Investment earnings					80,441	15,384	95,825
Miscellaneous					13,981	1,610	15,591
Total general revenues					<u>15,394,755</u>	<u>354,442</u>	<u>15,749,197</u>
Change in net assets					1,624,188	2,744,227	4,368,415
Net assets, beginning of year, as restated					<u>13,822,667</u>	<u>(4,448,628)</u>	<u>9,374,039</u>
Net assets end of year					<u>\$15,446,855</u>	<u>\$(1,704,401)</u>	<u>\$13,742,454</u>

See accompanying notes to the basic financial statements.

**CITY OF STEUBENVILLE, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003**

	<u>General</u>	<u>Street Improvement</u>	<u>Safety</u>	<u>Community Development</u>
Assets				
Equity in pooled cash and cash Equivalents		\$ 418,540	\$1,534,518	\$2,439
Intergovernmental receivable	\$ 118,675	17,894	-	-
Municipal taxes receivable	2,531,364	51,433	-	-
Property and other taxes	1,212,205	-	-	-
Due From Other Funds	2,142,957	195,144	-	-
Inventory	95,000	-	-	-
Prepaid items	<u>9,439</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>6,109,640</u>	 <u>683,011</u>	 <u>1,534,518</u>	 <u>2,439</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	110,670	25,075	535	9,413
Accrued wages	161,904	-	-	3,012
Intergovernmental payable	782,567	-	-	11,645
Deferred revenue	<u>3,612,115</u>	<u>46,783</u>	<u>-</u>	<u>-</u>
 Total liabilities	 <u>4,667,256</u>	 <u>71,858</u>	 <u>535</u>	 <u>24,070</u>
Fund Balances				
Reserved for encumbrances	2,133,430	102,511	-	-
Unreserved, reported in:				
General Fund	(691,046)	-	-	-
Special revenue funds	<u>-</u>	<u>508,642</u>	<u>1,533,983</u>	<u>(21,631)</u>
 Total fund balances (deficit)	 <u>1,442,384</u>	 <u>611,153</u>	 <u>1,533,983</u>	 <u>(21,631)</u>
 Total liabilities and Fund balances	 <u>\$6,109,640</u>	 <u>\$683,011</u>	 <u>\$1,534,518</u>	 <u>\$ 2,439</u>

See accompanying notes to the basic financial statements.

**CITY OF STEUBENVILLE, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003
(Continued)**

	<u>General Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Equity in pooled cash and cash equivalents	\$1,676,511	\$1,619,643	\$ 5,251,651
Intergovernmental receivable	25,473	35,364	197,406
Municipal taxes receivable	-	7,955	2,590,752
Property and other taxes	230,925	165,660	1,608,790
Due From Other Funds	-	-	2,338,101
Inventory	-	167,992	262,992
Prepaid items	-	1,216	10,655
Total assets	<u>1,932,909</u>	<u>1,997,830</u>	<u>12,260,347</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	-	109,188	254,881
Accrued wages	-	1,277	166,193
Intergovernmental payable	-	8,010	802,222
Deferred revenue	<u>256,398</u>	<u>165,660</u>	<u>4,080,956</u>
Total liabilities	<u>256,398</u>	<u>284,135</u>	<u>5,304,252</u>
Fund Balances			
Reserved for encumbrances	-	-	2,235,941
Reserved for debt service	1,676,511	-	1,676,511
Unreserved, reported in:			
General fund	-	-	(691,046)
Special revenue funds	<u>-</u>	<u>1,713,695</u>	<u>3,734,689</u>
Total fund balances (deficits)	<u>1,676,511</u>	<u>1,713,695</u>	<u>6,956,095</u>
Total liabilities and fund balances	<u>\$1,932,909</u>	<u>\$1,997,830</u>	<u>\$12,260,347</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, 2003**

Total Governmental Fund Balances		\$6,956,095
Amounts reported for governmental activities in the Statement of net assets are different because:		
Capital assets used in governmental activities are not financial Resources and therefore are not reported in the funds		10,660,401
Income tax assets are not available to pay for current-period Expenditures and therefore are deferred in the funds		2,339,155
The internal service fund is used by management to account For health insurance provided To City departments. The assets and liabilities of the internal Service fund are included in governmental activities in the Statement of net assets		463,837
Long-term liabilities, including loans payable and accrued Interest payable, are not due and payable in the current Period and therefore are not reported in the fund:		
General obligations	(1,670,451)	
Compensated absences	(1,067,809)	
Accrued interest payable	(12,300)	
Police and fire pension	<u>(2,222,073)</u>	
Total		<u>(4,972,633)</u>
Net assets of governmental activities		<u>\$15,446,855</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General</u>	<u>Street Improvement</u>	<u>Safety</u>	<u>Community Development</u>
REVENUES				
Municipal income taxes	\$ 7,589,699	\$434,965	\$ -	\$ -
Property taxes	1,229,717	-	-	-
Other taxes	121,971	-	-	-
Intergovernmental revenue	2,035,468	255,209	-	1,271,144
Operating refunds and reimbursements	679,706	-	28,437	-
Charges for services	178,600	-	-	-
Fines, licenses and permits	567,992	-	-	-
Interest income	73,825	-	-	-
Miscellaneous	5,447	-	-	-
Total revenues	<u>12,482,425</u>	<u>690,174</u>	<u>28,437</u>	<u>1,271,144</u>
EXPENDITURES				
Current:				
Security of persons and property	6,609,187	-	-	-
Public health and welfare	364,709	-	-	-
Leisure time activity	892,835	-	-	-
Community development	41,433	-	-	896,563
Transportation	1,356,806	146,844	-	-
General government	4,146,152	-	53,364	-
Capital outlay	79,319	402,191	-	-
Debt service:				
Principal retirement	-	15,008	-	-
Interest and fiscal charges	-	44,658	-	-
Total expenditures	<u>13,490,441</u>	<u>608,701</u>	<u>53,364</u>	<u>896,563</u>
Excess of revenues over (under)				
Expenditures	<u>(1,008,016)</u>	<u>81,473</u>	<u>(24,927)</u>	<u>374,581</u>
<u>Other financing sources (uses)</u>				
Transfers in	-	-	-	-
Transfers out	<u>(88,853)</u>	-	-	-
Total other financing sources (uses)	<u>(88,853)</u>	-	-	-
Net change in fund balances	(1,096,869)	81,473	(24,927)	374,581
Fund balance, beginning of year	<u>2,539,253</u>	<u>529,680</u>	<u>1,558,910</u>	<u>(396,212)</u>
Fund balance (deficits) end of year	<u>\$1,442,384</u>	<u>\$611,153</u>	<u>\$1,533,983</u>	<u>\$(21,631)</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

	<u>General Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Municipal income taxes	\$ -	\$ 400,000	\$ 8,424,664
Property taxes	209,264	203,203	1,642,184
Other taxes	-	87,125	209,096
Intergovernmental revenue	28,858	1,792,553	5,383,232
Operating refunds and reimbursements	-	1,071	709,214
Charges for services	-	1,767	180,367
Fines, licenses and permits	-	104,016	672,008
Interest income	3,399	3,217	80,441
Miscellaneous	-	76,333	81,780
Total revenues	<u>241,521</u>	<u>2,669,285</u>	<u>17,382,986</u>
EXPENDITURES			
Current:			
Security of persons and property	-	25,445	6,634,632
Public health and welfare	-	114,003	478,712
Leisure time activity	-	290,860	1,183,695
Community development	-	894,470	1,832,466
Transportation	-	673,270	2,176,920
General government	-	38,609	4,238,125
Capital outlay	-	460,090	941,600
Debt service:			
Principal retirement	-	14,025	29,033
Interest and fiscal charges	-	2,229	46,887
Total expenditures	<u>-</u>	<u>2,513,001</u>	<u>17,562,070</u>
Excess of revenues over (under) expenditures	<u>241,521</u>	<u>156,284</u>	<u>(179,084)</u>
<u>Other financing sources (uses)</u>			
Transfers in	-	88,853	88,853
Transfers out	-	-	(88,853)
Total other financing sources (uses)	<u>-</u>	<u>88,853</u>	<u>-</u>
Net change in fund balances	241,521	245,137	(179,084)
Fund balance, beginning of year	<u>1,434,990</u>	<u>1,468,558</u>	<u>7,135,179</u>
Fund balance (deficits) end of year	<u>\$1,676,511</u>	<u>\$1,713,695</u>	<u>\$6,956,095</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, 2003**

Net Changes in Fund Balances – Total Governmental Funds **\$ (179,084)**

Amounts reported for governmental activities in the
Statement of net assets are different because:

Governmental funds report capital outlays as expenditures.
However in the statement of activities, the costs of those
assets is allocated over their estimated useful lives as
depreciation expense. In the current period, these amounts
Are:

Capital outlay	\$1,026,613	
Depreciation	<u>(308,635)</u>	717,978

Income tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	859,388
--	---------

Repayment of loan principal and police and fire pension are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	62,262
--	--------

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds an interest expenditure is reported when due	12,300
--	--------

Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported in governmental funds	72,288
---	--------

The internal service fund used by management to change the costs of providing insurance to the individual fund is reported in the statement of activities	<u>79,056</u>
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Changes in Net Assets of Governmental Activities	<u>\$1,624,188</u>
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See accompanying notes to the basic financial statements.

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CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Municipal income taxes	\$ 7,725,000	\$ 7,725,000	\$ 7,817,245	\$ 92,245
Property taxes	1,502,500	1,225,999	1,229,895	3,896
Other taxes	125,000	125,000	118,628	(6,372)
Intergovernmental	2,413,985	2,483,744	2,034,426	(449,318)
Charges for services	213,550	223,500	178,600	(44,900)
Fines, licenses and permits	517,700	595,140	569,670	(25,470)
Interest	100,000	105,000	73,319	(31,681)
Operating refunds and reimbursements	550,000	600,000	679,707	79,707
Other	10,500	14,500	5,447	(9,053)
Total revenues	<u>13,158,235</u>	<u>13,097,883</u>	<u>12,706,937</u>	<u>(390,946)</u>
EXPENDITURES				
Current:				
Security of persons and property	6,603,746	6,524,381	6,524,532	(151)
Public health and welfare	343,536	355,444	355,016	428
Leisure time activity	1,154,256	1,005,477	1,003,691	1,786
Community development	43,366	43,547	43,547	-
Transportation	1,372,373	1,345,254	1,345,254	-
General government	<u>3,671,284</u>	<u>4,131,774</u>	<u>6,264,440</u>	<u>(2,132,666)</u>
Total expenditures	<u>13,188,561</u>	<u>13,405,877</u>	<u>15,536,480</u>	<u>(2,130,603)</u>
Excess of revenues over (under) expenditures	<u>(30,326)</u>	<u>(307,994)</u>	<u>(2,829,543)</u>	<u>(2,521,549)</u>
<u>Other financing sources (uses)</u>				
Sale of fixed assets	8,000	8,000	-	(8,000)
Transfers in	-	1,000	-	(1,000)
Transfers out	-	<u>(88,853)</u>	<u>(88,853)</u>	-
Total other financing sources (uses)	<u>8,000</u>	<u>(79,853)</u>	<u>(88,853)</u>	<u>(9,000)</u>
Net change in fund balances	(22,326)	(387,847)	(2,918,396)	(2,530,549)
Fund balance, beginning of year	72,635	72,635	72,635	-
Prior year encumbrances appropriated	<u>2,863,193</u>	<u>2,863,193</u>	<u>2,863,193</u>	-
Fund balance end of year	<u>\$2,913,502</u>	<u>\$2,547,981</u>	<u>\$ 17,432</u>	<u>\$(2,530,549)</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
STREET IMPROVEMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Municipal income taxes	\$ 685,000	\$ 685,000	\$ 700,653	\$ 15,653
Intergovernmental	242,000	243,743	252,732	8,989
Operating refunds and reimbursements	<u>10,000</u>	<u>10,000</u>	-	<u>(10,000)</u>
Total revenues	<u>937,000</u>	<u>938,743</u>	<u>953,385</u>	<u>14,642</u>
EXPENDITURES				
Current:				
Transportation	<u>1,154,840</u>	<u>632,485</u>	<u>632,485</u>	-
Total expenditures	<u>1,154,840</u>	<u>632,485</u>	<u>632,485</u>	-
Excess of revenues over (under) expenditures	<u>(217,840)</u>	<u>306,258</u>	<u>320,900</u>	<u>14,642</u>
<u>Other financing sources (uses)</u>				
Note proceeds	<u>468,127</u>	<u>838,127</u>	-	<u>(838,127)</u>
Total other financing sources (uses)	<u>468,127</u>	<u>838,127</u>	-	<u>(838,127)</u>
Net change in fund balances	250,287	1,144,385	320,900	(823,485)
Fund balance, beginning of year	(250,219)	(250,219)	(250,219)	-
Prior year encumbrances appropriated	<u>440,492</u>	<u>440,492</u>	<u>440,492</u>	-
Fund balance end of year	<u>\$440,560</u>	<u>\$1,334,658</u>	<u>\$511,173</u>	<u>\$(823,485)</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
SAFETY FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
REVENUES				
Operating revenues and reimbursements	\$ 200,000	\$ 200,000	\$ 28,437	\$(171,563)
EXPENDITURES				
Current:				
Security of persons and property	<u>82,500</u>	<u>102,829</u>	<u>102,829</u>	-
Total expenditures	<u>82,500</u>	<u>102,829</u>	<u>102,829</u>	-
Excess of revenues over (under) expenditures	<u>117,500</u>	<u>97,171</u>	<u>(74,392)</u>	<u>(171,563)</u>
<u>Other Financing Sources (Uses)</u>				
	-	-	-	-
Net change in fund balances	117,500	97,171	(74,392)	(171,563)
Fund balance, beginning of year	1,558,910	1,558,910	1,558,910	-
Prior year encumbrances appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance end of year	<u>\$1,676,410</u>	<u>\$1,656,081</u>	<u>\$1,484,518</u>	<u>\$(171,563)</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET (NON-GAAP BASIS) AND ACTUAL –
COMMUNITY DEVELOPMENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
REVENUES				
Intergovernmental	<u>\$1,371,500</u>	<u>\$1,671,501</u>	<u>\$1,271,144</u>	<u>\$(400,357)</u>
Total revenues	<u>1,371,500</u>	<u>1,671,501</u>	<u>1,271,144</u>	<u>(400,357)</u>
EXPENDITURES				
Current:				
Housing and community development	<u>1,348,349</u>	<u>1,246,027</u>	<u>1,246,027</u>	<u>-</u>
Total expenditures	<u>1,348,349</u>	<u>1,246,027</u>	<u>1,246,027</u>	<u>-</u>
Excess of revenues over (under) expenditures	23,151	425,474	25,117	(400,357)
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	23,151	425,474	25,117	(400,357)
Fund balance beginning of year	(22,677)	(22,677)	(22,677)	-
Prior year encumbrances appropriated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance end of year	<u>\$ 474</u>	<u>\$ 402,797</u>	<u>\$ 2,440</u>	<u>\$(400,357)</u>

See accompanying notes to the basic financial statements.

**CITY OF STEUBENVILLE, OHIO
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2003**

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	
Current Assets					
Equity in pooled cash and cash Equivalents	\$ 2,476,666	-	\$ 836,372	\$ 3,313,038	\$595,641
Accounts receivable	807,795	\$ 666,934	363,911	1,838,640	-
Prepaid item	<u>2,720</u>	<u>2,720</u>	<u>2,721</u>	<u>8,161</u>	-
Total current assets	<u>3,287,181</u>	<u>669,654</u>	<u>1,203,004</u>	<u>5,159,839</u>	<u>595,641</u>
Noncurrent Assets					
Land and construction in progress	13,835,853	1,867,197	-	15,703,050	-
Depreciable capital assets, net	<u>364,308</u>	<u>936,918</u>	<u>268,808</u>	<u>1,570,034</u>	-
Total noncurrent assets	<u>14,200,161</u>	<u>2,804,115</u>	<u>268,808</u>	<u>17,273,084</u>	-
Total assets	<u>17,487,342</u>	<u>3,473,769</u>	<u>1,471,812</u>	<u>22,432,923</u>	<u>595,641</u>
Current Liabilities					
Accounts payable	91,712	22,991	34,100	148,803	-
Claims payable	-	-	-	-	131,804
Accrued wages	26,052	15,574	12,010	53,636	-
Intergovernmental payable	103,835	65,836	43,592	213,263	-
Due To Other Funds	-	2,338,101	-	2,338,101	-
Accrued interest	1,460	6,210	-	7,670	-
Compensated absences payable	-	5,381	-	5,381	-
General obligation notes	300,000	1,208,534	19,467	1,528,001	-
Ohio Water Development Authority Loans	920,174	13,451	-	933,625	-
Ohio Public Works Commission Loans	<u>26,820</u>	-	-	<u>26,820</u>	-
Total current liabilities	<u>1,470,053</u>	<u>3,676,078</u>	<u>109,169</u>	<u>5,255,300</u>	<u>131,804</u>
Noncurrent Liabilities					
Compensated absences	139,766	79,979	53,288	273,033	-
General obligation notes	-	38,439	57,414	95,853	-
Ohio Water Development Authority Loans	11,572,914	908,324	-	12,481,238	-
Ohio Public Works Commission Loans	400,889	145,769	-	546,658	-
Landfill closure/postclosure	-	-	<u>5,485,242</u>	<u>5,485,242</u>	-
Total noncurrent liabilities	<u>12,113,569</u>	<u>1,172,511</u>	<u>5,595,944</u>	<u>18,882,024</u>	-
Total liabilities	13,583,622	4,848,589	5,705,113	24,137,324	131,804
Net Assets					
Invested in capital assets, net of Related debt	979,364	489,598	191,927	1,660,889	-
Capital project	18,664	153,667	500,000	672,331	-
Unrestricted	<u>2,905,692</u>	<u>(2,018,085)</u>	<u>(4,925,228)</u>	<u>(4,037,621)</u>	-
Total Net Assets	<u>\$3,903,720</u>	<u>\$(1,374,820)</u>	<u>\$(4,233,301)</u>	<u>\$(1,704,401)</u>	<u>\$463,837</u>

See accompanying notes to the basic financial statements.

CITY OF STEUBENVILLE, OHIO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	
Operating Revenues					
Charges for Services	\$4,391,282	\$2,946,954	\$1,585,341	\$8,923,577	\$1,848,695
Operating refunds and reimbursements	<u>330,344</u>	<u>7,104</u>	<u>-</u>	<u>337,448</u>	<u>-</u>
Total Operating Revenues	<u>4,721,626</u>	<u>2,954,058</u>	<u>1,585,341</u>	<u>9,261,025</u>	<u>1,848,695</u>
Operating Expenses					
Wages and benefits	1,826,563	1,168,983	716,279	3,711,825	-
Utilities	378,956	216,107	9,045	604,108	-
Maintenance	499,278	192,074	524,755	1,216,107	-
Depreciation	54,165	151,785	32,724	238,674	-
Other	39,093	320,950	147,632	507,675	-
Health care	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,770,236</u>
Total operating expenses	<u>2,798,055</u>	<u>2,049,899</u>	<u>1,430,435</u>	<u>6,278,389</u>	<u>1,770,236</u>
Operating income	1,923,571	904,159	154,906	2,982,636	78,459
Non-Operating Revenues (Expenses)					
Interest	7,849	4,552	2,983	15,384	597
Interest and fiscal charges	(393,549)	(93,460)	(5,048)	(492,057)	-
Other nonoperating revenue	<u>876</u>	<u>195</u>	<u>539</u>	<u>1,610</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(384,824)</u>	<u>(88,713)</u>	<u>(1,526)</u>	<u>(475,063)</u>	<u>597</u>
Income before capital contributions	1,538,747	815,446	153,380	2,507,573	79,056
Capital contributions	<u>-</u>	<u>236,654</u>	<u>-</u>	<u>236,654</u>	<u>-</u>
Change in net assets	1,538,747	1,052,100	153,380	2,744,227	79,056
Net assets beginning of year, as restated	<u>2,364,973</u>	<u>(2,426,920)</u>	<u>(4,386,681)</u>	<u>(4,448,628)</u>	<u>384,781</u>
Net assets end of year	<u>\$3,903,720</u>	<u>\$(1,374,820)</u>	<u>\$(4,233,301)</u>	<u>\$(1,704,401)</u>	<u>\$463,837</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, 2003**

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	
Increase (Decrease) in Cash and Cash Equivalents					
Cash received from customers	\$ 4,033,025	\$ 2,527,395	\$ 1,469,483	\$ 8,029,903	\$1,848,695
Operating refunds and reimbursements	330,344	7,104	-	337,448	-
Cash payments for employee Services and benefits	(1,790,679)	(1,163,903)	(705,071)	(3,659,653)	-
Cash payments to suppliers for Goods and services	(914,090)	(743,376)	(674,030)	(2,331,496)	-
Cash payment for claims	-	-	-	-	(1,790,275)
Other non-operating revenues	<u>876</u>	<u>195</u>	<u>539</u>	<u>1,610</u>	<u>597</u>
Net cash provided by operating Activities	<u>1,659,476</u>	<u>627,415</u>	<u>90,921</u>	<u>2,377,812</u>	<u>59,017</u>
Cash flows from non-capital Financing activities					
Advances from other funds	<u> </u>	<u>2,338,101</u>	<u> </u>	<u>2,338,101</u>	
Cash flows from capital and Related financing activities:					
Acquisition of capital assets	(4,163,508)	(1,456,996)	(7,510)	(5,628,014)	-
Principal issued on debt	4,141,779	518,301	-	4,660,080	-
Principal paid on debt	(1,319,822)	(439,051)	(23,119)	(1,781,992)	-
Interest paid on debt	(396,525)	(94,345)	(4,443)	(495,313)	-
Capital contributions	<u>-</u>	<u>236,654</u>	<u>-</u>	<u>236,654</u>	<u>-</u>
Net cash (used in) provided by Capital and related financing Activities	<u>(1,738,076)</u>	<u>(1,235,437)</u>	<u>(35,072)</u>	<u>(3,008,585)</u>	<u>-</u>
Cash flows from investing Activities:					
Interest on investments	<u>7,849</u>	<u>4,552</u>	<u>2,983</u>	<u>15,384</u>	<u>-</u>
Net increase (decrease) in cash And cash equivalents	(70,751)	1,734,631	58,832	1,722,712	59,017
Cash and cash equivalents Beginning of year	<u>209,316</u>	<u>603470</u>	<u>777,540</u>	<u>1,590,326</u>	<u>536,624</u>
Cash and cash equivalents End of year	<u>\$2,476,666</u>	<u>\$ 0</u>	<u>\$836,372</u>	<u>\$3,313,038</u>	<u>\$595,641</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, 2003
(Continued)**

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	
Reconciliation of Operating Income To Net Cash Provided by Operating Activities:					
Operating income	\$1,923,571	\$904,159	\$154,906	\$2,982,636	\$78,459
Adjustments:					
Depreciation	54,165	151,785	32,724	238,674	-
Other non-operating revenues	876	195	539	1,610	597
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(342,771)	(419,558)	(115,857)	(878,186)	-
(Increase) decrease in prepaid items	(385)	(385)	(385)	(1,155)	-
Increase (decrease) in accounts Payable	(11,864)	(13,894)	7,786	(17,972)	-
Increase (decrease) in claims Payable	-	-	-	-	(20,039)
Increase in accrued wages and Benefits payable	10,941	4,874	5,519	21,334	-
Increase in intergovernmental payable	10,546	3,774	2,805	17,125	-
Increase (decrease) in compensated Absences payable	14,397	(3,535)	2,884	13,746	-
Net cash provided by operating Activities	<u>\$1,659,476</u>	<u>\$627,415</u>	<u>\$90,921</u>	<u>\$2,377,812</u>	<u>\$59,017</u>

See accompanying notes to the basic financial statements.

**CITY OF STEUBENVILLE, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2003**

	Private Purpose Trust Funds
ASSETS	
Equity in Pooled Cash and Cash Equivalents	<u>\$194,568</u>
LIABILITIES	
Deposits held and due to others	<u>\$194,568</u>

See accompanying notes to the basic financial statements.

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**CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Note 1 – Description of the City and Reporting Entity:

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 government 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 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.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading.

The primary government consists of all funds and departments which provide various services including police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare, water, sewer and refuse collection. Council and the City Manager are directly responsible for these activities.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization’s resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. There are no component units included as part of this report.

Note 2 – Summary of Significant Accounting Policies:

The financial statements of the City of Steubenville have been prepared in conformity with generally accepted accounting principles (GAAP) 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, 1998, to its governmental and business-type activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements that 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 activity of the internal service funds is 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 revenue 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 a 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. Revenues 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 governmental function or business-type activity is self-financing or draws 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 fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

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.

Governmental Funds

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

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

General Fund – This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the Charter of the City.

Street Improvement Fund – The Street Improvement fund is used to account for monies collected to construct, maintain and repair the City's streets.

Safety Fund – The Safety fund accounts for Worker Compensation refunds that are used to finance operations that provide for the well being of City citizens.

Community Development Fund – The Community Development fund accounts for federal grant proceeds used to develop decent housing and expand economic opportunity for persons of low and moderate income, and to enhance community development needs within the City.

General Bond Retirement Fund – The General Bond Retirement fund is used to account for the accumulation of resources for, and the payment of long-term principal, interest and related costs.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Fund Types

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – 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 – The water fund accounts for the provisions of water treatment and distribution to the residential and commercial users located within the City.

Sewer Fund – The sewer fund accounts for the provisions of sanitary sewer service to the residents and commercial users located within the City.

Refuse Fund – The refuse fund accounts for the provisions of refuse service to the residential and commercial users located with the City.

Internal Service Funds – An internal service fund accounts 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 fund reports the activity of the centralized City self-insurance health program provided to City employees.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and change 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 purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's fiduciary funds are private-purpose trust funds.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Measurement Focus

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 operations of the City are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 report 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 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 associate 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 decrease (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.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transaction

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

Non-exchange transactions, which the City receives value without directly giving equal value in return, include income tax, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property tax is recognized in the year for which the taxes are levied. 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

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax, and motor vehicle license tax), fines and forfeitures, interest, grants and rentals.

Deferred Revenue

Deferred revenues 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, 2003, but which were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Money for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank account is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During 2003, the portfolio of the City was limited to nonparticipating interest-earning investment contracts (e.g., repurchase agreements). Nonparticipating investment contracts such as repurchase agreements are reported at cost.

Investments with an original maturity of three months or less at the time of purchase, and investments of the cash management pool are reported as cash equivalents on the financial statements.

Interest income is distributed to the funds according to charter and statutory requirements. Interest income reported in the Statement of Activities for 2003 amounted to \$95,825.

Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventory consists of expendable supplies held for consumption.

**CITY OF STEUBENVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental activities. General capital 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 five thousand dollars and a useful life of one year or more. 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 expended. Interest incurred during the construction of capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	50 years	50 years
Improvements	10-15-years	10-15 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

The City has elected to phase-in recording its governmental-activities infrastructure as permitted by GASB and therefore only the current year additions to infrastructure are recorded in the financial statements.

Compensated Absences

All vacation must be used by December 31st of each year.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end taking into consideration any limits specified in the City's termination policy.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has unpaid leave is paid.

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, compensated absences and contractual required pension obligations that will be paid from the governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment from current-available resources. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserve

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure.

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 balance 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 enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenue 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 water, sewer and refuse programs. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

Interfund Activity

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

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Exchange transactions between funds are reported as revenues in the seller funds and as expenditure/expenses in the purchaser funds. Flows of cash or goods from one fund to another without 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. Repayment from funds responsible for particular expenditures/expenses to funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Budgetary Process

All funds, except for agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by the Council at the fund level for all funds. Appropriations may be allocated within each function, department and object level within each fund. Council must approve any revisions that alter total fund appropriations.

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

The appropriation resolution is subject to amendment by Council throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for the fund that covers the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represents the final appropriation amounts passed by Council during the year.

Note 3 – 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 the basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balances – budget (non-GAAP) and actual presented for the general and major special revenue funds are 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 that:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

**CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

2. Expenditures/expenses 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. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

	Net Change in Fund Balance			
	<u>General</u>	<u>Street Improvement</u>	<u>Safety</u>	<u>Community Development</u>
GAAP Basis	\$(1,096,869)	\$ 81,473	\$(24,927)	\$374,581
Revenue accruals	224,512	263,211	-	-
Expenditure accruals	<u>(2,046,039)</u>	<u>(23,784)</u>	<u>(49,465)</u>	<u>(349,464)</u>
Budgetary basis	<u>\$(2,918,396)</u>	<u>\$320,900</u>	<u>\$(74,392)</u>	<u>\$ 25,117</u>

Note 4 – Change in Accounting Principles and Restatement of Prior Year Fund Equity:

Change in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures” and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the new reporting model.

Restatement of Fund Balances

The City reclassified certain funds due to the implementation of GASB 34. Certain trust funds that provide support to City activities were previously reported as non-expendable and expendable trust funds. Certain trust funds that are permanent in nature and provide support to City activities were reclassified as permanent funds and the expendable trust fund was reclassified as a special revenue fund. GASB Interpretation No. 6 redefined how liabilities should be recognized in governmental funds that resulted in certain liabilities to be reported as long-term instead as any actual fund liability.

These restatements had the following effect on fund balance of major and nonmajor funds of the City. The transition from governmental fund balance to net assets of the governmental activities is also presented.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

	Total
Fund Balance December 31, 2002	\$7,351,034
Reclassification of funds	53,494
GASB 34 Adjustments	
Capital assets, net	9,942,423
Internal service fund	384,781
Long-term compensated Absences	(1,140,097)
Long-term liabilities	(1,993,433)
Police & fire pension payable	(2,255,302)
Long-term (deferred) assets	1,479,767
Governmental Activities Net Assets, December 31, 2002	\$13,822,667
	Total
Funds Equity December 31, 2002	\$(10,714,263)
Capital asset adjustments	6,265,635
December 31, 2002 Business-Type Activities Net Assets	\$ (4,448,628)

Note 5 – Accountability and Compliance

A. Deficit Balances

The following fund had deficit net assets as of December 31, 2003;

Proprietary Funds

Sewer Fund	\$ 1,374,820
Refuse Fund	\$ 4,233,301

Ohio State law does not permit a cash basis deficit at year end. The Sewer Fund had a deficit cash balance at December 31, 2003, which is contrary to Ohio Revised Code § 5705.10.

The deficit net assets in the Sewer Fund are caused, in part, by the application of generally accepted accounting principles. Also, the deficit net assets are partially caused by an inadequate fee structure. The City management is considering its options. The deficit retained earnings in the Refuse Fund is caused by a prior period adjustment for estimated closure and post closure care costs for the municipal landfill. The accumulated deficit in the Refuse Fund is more fully described in Note 18.

B. Legal Compliance

Contrary to Ohio Revised Code § 5705.39, appropriations exceeded the amount certified as available by the budget commission in the Sewer Fund by \$406,267. The City will monitor estimated revenue levels in the future to ensure that appropriations are not in excess of the amount available.

Also, contrary to Ohio Revised Code § 5705.41(D), the City did not properly certify or record the amount against the applicable appropriation accounts for 35% of tested expenditures in 2003. The City will implement procedures to ensure that expenditures are certified in the future.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 6 – Deposits and Investments:

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, (FDIC), by eligible securities pledge 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 moneys deposited with the institution.

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

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

**CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

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

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, “Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.”

Deposits: At December 31, 2003, the carrying amount of the City’s deposits, which includes cash with fiscal and escrow agents was \$4,291,877 and the bank balance was \$4,190,867. Of the bank balance:

1. \$250,714 was covered by federal deposit insurance;
2. \$483,682 was collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name; and
3. \$3,456,471 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City’s investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s department or agent in the City’s name. Category 3 includes uninsured and unregistered investments which are held by the counterparty or by its trust department or agent but not in the City’s name.

	<u>Category 3</u>	<u>Fair Value</u>
Repurchase Agreements	<u>\$5,063,021</u>	<u>\$5,063,021</u>

The classification of cash and cash equivalents on the financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.”

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A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$9,354,898	\$ -
Investments:		
Repurchase Agreements	<u>(5,063,021)</u>	<u>5,063,021</u>
GASB Statements No. 3	<u>\$4,291,877</u>	<u>\$5,063,021</u>

Note 7 – Receivables:

Receivables at December 31, 2003 consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements, shared revenues, accrued interest on investment and accounts (billing for utility services and various other charges for services).

Note 8 - Property Taxes

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) is for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed value are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate of all City operations for the year ended December 31, 2003 was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property – agriculture and residential	\$140,249,860
Real property – other	54,517,540
Public utility tangible personal property	12,849,760
Public utility real property	23,380
Tangible personal property	<u>27,607,706</u>
Total valuation	<u>\$235,248,246</u>

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Real property taxes are payable annually or semi-annually. If paid annually, the 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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

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

Note 9 - Municipal Income Taxes

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 also 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% percent 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. .3% of this second one percent is allocated in various amounts to the general and street improvement fund.

Note 10 - Due from Other Governments

A summary of the intergovernmental receivables as of December 31, 2003 follows:

<u>Governmental Activities:</u>	
Homestead/Rollback	\$133,012
Local government assistance	10,095
Gasoline tax	34,834
Motor vehicle license tax	18,423
Liquor tax	<u>1,042</u>
Total	<u>\$197,406</u>

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(Continued)

Note 11 – Interfund Transfers and Balances

A. Interfund Transfers

As of December 31, 2003, interfund transfers were as follows:

<u>Transfer To</u>	<u>Transfer From General Fund</u>	<u>Total</u>
Lead Prevention	\$ 2,615	\$ 2,615
Summer Food	<u>86,238</u>	<u>86,238</u>
	<u>\$88,853</u>	<u>\$88,853</u>

All transfers were made to provide additional resources for current operations. As of December 31, 2003, there were no interfund balances.

B. Interfund Balances

The Sewer Fund had a deficit cash balance of \$2,338,101 at December 31, 2003. This deficit is caused by expenditures exceeding revenues and by the recognition of expenditures on the modified accrual basis of accounting. The General Fund advanced \$2,142,957 and the Street Improvement Fund advanced \$195,144 to the Sewer Fund to cover the negative cash.

Note 12 – Capital Assets:

Capital asset activity for the year ended December 31, 2003 was as follows:

	<u>Restated Balance 12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
<u>Governmental Activities</u>				
Non-depreciable capital assets:				
Land	\$ 278,013	\$ -	\$ -	\$ 278,013
Construction in progress	<u>6,424,497</u>	<u>7,031</u>	-	<u>6,431,528</u>
Non-depreciable capital assets	6,702,510	7,031	-	6,709,541
Depreciable capital assets:				
Buildings	2,688,216	-	-	2,688,216
Improvements	1,574,375	11,563	-	1,585,938
Equipment	456,527	122,832	-	579,359
Vehicles	2,833,935	305,014	-	3,138,949
Infrastructure	<u>114,390</u>	<u>580,173</u>	-	<u>694,563</u>
Depreciable capital assets	7,667,443	1,019,582	-	8,687,025
Less: accumulated depreciation				
Buildings	(961,343)	(61,140)	-	(1,022,483)
Improvements	(875,314)	(57,863)	-	(933,177)
Equipment	(242,105)	(34,739)	-	(276,844)
Vehicles	(2,330,339)	(139,971)	-	(2,470,310)
Infrastructure	<u>(18,429)</u>	<u>(14,922)</u>	-	<u>(33,351)</u>
Accumulated depreciation	<u>(4,427,530)</u>	<u>(308,635)*</u>	-	<u>(4,736,165)</u>
Depreciable capital assets, net	<u>3,239,913</u>	<u>710,947</u>	-	<u>3,950,860</u>
Governmental activities capital assets, net	<u>\$9,942,423</u>	<u>\$717,978</u>	<u>\$ -</u>	<u>\$10,660,401</u>

CITY OF STEUBENVILLE, OHIO
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*-Depreciation expense was charged to governmental functions as follows:

Security of person and property	\$ 86,863
Public health and welfare	376
Leisure time activities	85,300
Community development	4,031
General government	<u>132,065</u>
Total depreciation expense – governmental activities	<u>\$308,635</u>

	<u>Restated Balance 12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
<u>Business-type Activities</u>				
Non-depreciable capital assets:				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	<u>10,098,677</u>	<u>5,568,373</u>	-	<u>15,667,050</u>
Non-depreciable capital assets	10,134,677	5,568,373	-	15,703,050
Depreciable capital assets:				
Buildings	5,835,342	-	-	5,835,342
Improvements	-	-	-	-
Equipment	172,600	52,131	-	224,731
Vehicles	1,212,938	7,510	-	1,220,448
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable capital assets	7,220,880	59,641	-	7,280,521
Less: accumulated depreciation				
Buildings	(4,776,653)	(111,244)	-	(4,887,897)
Improvements	-	-	-	-
Equipment	(42,262)	(13,710)	-	(55,972)
Vehicles	(652,898)	(113,720)	-	(766,618)
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated depreciation	<u>(5,471,813)</u>	<u>(238,674)</u>	<u>-</u>	<u>(5,710,487)</u>
Depreciable capital assets, net	<u>1,749,067</u>	<u>(179,033)</u>	<u>-</u>	<u>1,570,034</u>
Business-type activities capital assets, net	<u>\$11,883,744</u>	<u>\$5,389,340</u>	<u>\$ -</u>	<u>\$17,273,084</u>

Note 13 – Pension Plans

Substantially all City employees are covered by one of the two cost-sharing multiple-employer defined benefit pension plans, namely, the Public Employees Retirement System of Ohio (OPERS) and the Police and Firemen's Disability and Pension Fund (OP&F). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multipleemployer-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

CITY OF STEUBENVILLE, OHIO
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(Continued)

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 formal retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to 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, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. The City's contribution rate for pension benefits for 2003 was 13.55%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the year ended December 31, 2003, 2002, and 2001 were \$791,388, \$755,768, and \$724,868 respectively; 90% has been contributed for 2003 and 100% for 2002 and 2001.

Ohio Police and Fire Pension Fund

The City of Steubenville 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, cost-of-living adjustments, and death benefits to plan member and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The City's required contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$899,727, \$841,873 and \$784,629 respectively; 75% has been contributed for 2003 and 100% for 2002 and 2001.

Note 14 – Postemployment Benefits:

Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55% of covered payroll; 5.00% of covered payroll was the portion that was used to fund health care.

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Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. The City's contributions for 2003 which were used to fund postemployment benefits were \$39,569. The actual contributions and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care covered through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's contributions for 2003 that were used to fund postemployment benefits were \$69,729. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

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(Continued)

Note 15 - Other Employee Benefits

Compensated Absences:

Vacation

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

Sick Leave

Sick leave is according to contracts. Members of AFSCME, Police and Non-Union personal are credited with 120 hours at the beginning of each year and fire department personal are credited with 168 hours. There is no limit to the amount an employee can accumulate during their service time with the City. Upon termination, an employee with less than 10 years is entitled to 25% of accumulated sick hours. An employee with 10 years or more is entitled to 50% of accumulated sick hours. For AFSCME union members and non-union personnel there is a limit of 2000 hours of accumulated sick hours that can be paid, police and fire personnel have no hour limit that can be paid. The total obligation for sick leave accrual for the city as a whole as of December 31, 2003 was \$1,346,223.

Note 16 – Risk Management

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2003, the City contracted with Clarendon National Insurance company for the following types of insurance:

<u>Type</u>	<u>Deductible</u>	<u>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

There have been no significant reductions in coverage as compared to the prior year. Settled claims have not exceeded this commercial coverage in any of the past five years.

The City pays the State Workers' Compensation system a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The City is not eligible to participate in a workers' compensation group rating plan.

The City provides health care coverage through a self-insured program administered by Health Assurance. The City pays 100% of 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.

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Reconciliation of changes in the aggregate liabilities for claims for the current and prior fiscal year are as follows:

Claims payable at December 31, 2002	\$ 152,256
Claims incurred for fiscal year ending December 31, 2003	1,770,236
Claims paid in fiscal year 2003	<u>(1,790,688)</u>
Claims payable at December 31, 2003	<u>\$ 131,804</u>

Note 17 – Long-Term Obligations

Changes in the long-term obligations of the City during 2003 were as follows:

	<u>Principal Outstanding 12-31-2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 12-31-2003</u>	<u>Amounts Due In One Year</u>
Governmental Activities					
General Obligations					
0% Interest – ODOT US Route 22					
Due through 1210	\$ 494,931	\$ -	\$ -	\$ 494,931	\$ 75,000
0% Interest – ODOT US Route 22					
Due through 2010	128,967	-	-	128,967	18,876
3.0% Interest – ODOT Sunset Boulevard					
Due through 2025	942,586	56,501	15,008	984,079	25,095
3.66% Interest – National City Bank – Jim Woods					
Due through 2007	<u>76,500</u>	-	<u>14,026</u>	<u>62,474</u>	<u>14,775</u>
Total General Obligations	<u>1,642,984</u>	<u>56,501</u>	<u>29,034</u>	<u>1,670,451</u>	<u>133,746</u>
Other Liabilities					
Compensated absences Police and Fire Pension Liability	1,140,097	226,643	298,931	1,067,809	1,721
Due through 2035	<u>2,255,302</u>	-	<u>33,229</u>	<u>2,222,073</u>	<u>34,656</u>
Total other liabilities	<u>3,395,399</u>	<u>226,643</u>	<u>332,160</u>	<u>3,289,882</u>	<u>36,377</u>
Total Government Activities	<u>\$5,038,383</u>	<u>\$283,144</u>	<u>\$361,194</u>	<u>\$4,960,333</u>	<u>\$170,123</u>

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Business Type Activities

	<u>Principal Outstanding 12-31-2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 12-31-2003</u>	<u>Amounts Due In One Year</u>
Enterprise					
Sewer – OWDA #1264, 1265 & 1266 6.5% - 9.72% interest Treatment Plant Due through 2003	67,169	-	67,169	-	-
Sewer – OWDA #3495 3.20% interest Wastewater Design Due through 2009	441,812	260,732	-	702,544	-
Sewer – OWDA #3868 3.53% interest SSEC/CSO Improv. Due through 2023	-	225,782	6,551	219,231	13,451
Sewer –OPWC #CN28D 0% Interest SSEC/CSO Improv. Due through 2014	-	145,769	-	145,769	-
Sewer – Sky Bank 4.25% interest Wastewater Improvement Due 2003	360,000	-	360,000	-	-
Sewer – Sky Bank 5.84% Interest Wastewater improvement Due 2004	1,200,000	-	-	1,200,000	1,200,000
Sewer – Case Credit 4.75% Interest Equipment Due through 2008	-	52,306	5,333	46,973	8,534
Water – OWDA #3441 3.90% interest Rawwater Pump and Transmission Mains Design Due through 2022	7,229,096	413,927	285,275	7,357,748	296,600
Water – OWDA #3459 3.20% interest Capital Improv. Design Due through 2008	1,418,421	186,477	-	1,604,898	335,764
Water – OWDA #3686 3.95% interest Storage Improvement Due through 2024	275,355	2,217,845	-	2,493,200	-

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	<u>Principal Outstanding 12-31-2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding 12-31-2003</u>	<u>Amounts Due In One Year</u>
Water – OWDA #3734 3.20% Interest Treatment Plan Design Due 2008	20,514	1,157,242	140,514	1,037,242	287,810
Water – OPWC #CN523 0% Interest Tank Repair Due through 2016	76,341	-	5,873	70,468	5,872
Water – OPWC #CN729 0% Interest Storm Sewer Improv. Due through 2017	87,844	-	6,058	81,786	6,058
Water – OPWC #CN038 0% interest Pumping Transmission Lines Due through 2022	317,555	-	42,100	275,455	14,890
Water – Sky Bank 4.25% interest Water improvement Due 2003	840,000	-	840,000	-	-
Water - Sky Bank 5.84% interest Water Improvement Due 2004	300,000	-	-	300,000	300,000
Refuse – Nat'l City Bank 3.71% interest Garbage Packer Due through 2007	<u>100,000</u>	<u>-</u>	<u>23,119</u>	<u>76,881</u>	<u>19,467</u>
Total Enterprise Type	<u>12,734,107</u>	<u>4,660,080</u>	<u>1,781,992</u>	<u>15,612,195</u>	<u>2,488,446</u>
Other Liabilities					
Compensated Absences	264,667	112,530	98,783	278,414	5,381
Landfill Closure/ Postclosure	<u>5,485,242</u>	<u>-</u>	<u>-</u>	<u>5,485,242</u>	<u>-</u>
Total other liabilities	<u>5,749,909</u>	<u>112,530</u>	<u>98,783</u>	<u>5,763,656</u>	<u>5,381</u>
Total Business Type	<u>18,484,016</u>	<u>4,772,610</u>	<u>1,880,775</u>	<u>21,375,851</u>	<u>2,493,827</u>
Total Long Term Obligations	<u>\$23,522,399</u>	<u>\$5,055,754</u>	<u>\$2,241,969</u>	<u>\$26,336,184</u>	<u>\$2,663,950</u>

General obligations are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Outstanding general obligations consists of construction and improvement issues for utility systems, streets, property and equipment.

The Ohio Water Development Authority (O.W.D.A.) loans are for utility construction projects. Property and revenue of the utility facilities have been pledge to repay these debts.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Principal and Interest Requirements

Principal and interest requirements to retiree long-term obligations outstanding at December 31, 2003 were as follows:

Due In	Governmental					
	General Obligations		Police & Fire Pensions		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 133,746	\$ 37,421	\$ 34,656	\$ 94,073	\$ 168,402	\$ 131,494
2005	141,658	30,065	36,145	92,585	177,803	122,650
2006	143,290	28,515	37,697	91,032	180,987	119,547
2007	144,980	26,911	39,316	89,414	184,296	116,325
2008	129,631	25,486	41,004	87,725	170,635	113,211
2009-2013	351,656	110,480	233,006	410,645	584,662	521,125
2014-2018	231,617	78,601	287,531	356,117	519,148	434,718
2019-2023	272,130	41,255	354,819	288,830	626,949	330,085
2024-2028	121,743	4,602	437,851	205,797	559,594	210,399
2029-2033	-	-	540,315	103,333	540,315	103,333
2034-2035	-	-	179,733	7,571	179,733	7,571
	<u>\$1,670,451</u>	<u>\$383,336</u>	<u>\$2,222,073</u>	<u>\$1,827,122</u>	<u>\$3,892,524</u>	<u>\$2,210,458</u>

Due In	Business					
	General and OPWC		OWDA		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 1,554,821	\$ 87,934	\$ 933,625	\$ 423,953	\$ 2,488,446	\$ 511,887
2005	81,848	3,571	1,379,993	592,464	1,461,841	596,035
2006	83,038	2,381	1,427,762	544,695	1,510,800	547,076
2007	78,783	1,154	1,136,723	459,511	1,215,506	460,665
2008	63,000	368	707,157	420,862	770,157	421,230
2009-2013	176,333	-	2,873,293	1,754,820	3,049,626	1,754,820
2014-2018	107,396	-	3,444,530	1,132,512	3,551,926	1,132,512
2019-2023	52,113	-	1,511,780	169,316	1,563,893	169,316
	<u>\$2,197,332</u>	<u>\$ 95,408</u>	<u>\$13,414,863</u>	<u>\$5,498,133</u>	<u>\$15,612,195</u>	<u>\$5,593,541</u>

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 where the proceeds received are to be used to pay this pension obligation.

Compensated absences will be paid from the fund in which the employee who has earned the leave is paid from.

As of December 31, 2003, the City had the following significant contracts with contractors with respect to capital projects:

**CITY OF STEUBENVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 (Continued)**

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Pump Station	\$ 693,663
Water/wastewater capital improvement	1,756,488
Water treatment plant design	382,025
Water storage improvements	1,057,513
Low pressure distance water tanks	337,300
Washington Street emergency outfall repair	35,590
SSES/CSO improvements – University Boulevard	135,096
SSES/CSO improvements – regulator “Q” project	<u>87,520</u>
Total	<u>\$4,485,195</u>

Note 18 - Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require the City to place a final cover on its municipal landfill site and to perform certain maintenance and monitoring functions at the closed landfill site for thirty years after closure. The landfill is no longer being used; however, the final cover as required by state and federal laws has not been placed on the landfill. The first phase of placing the final cover on the landfill is planned to begin in 2006. The estimated liability for the landfill is \$2,792,750 for closure costs and \$2,692,492 for the post closure care costs for a total liability of \$5,485,242. The estimated cost of landfill closure and postclosure care expenses is based on the amount that would be paid if all materials and services required to monitor and maintain the closed landfill were acquired as of December 31, 2003. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

Note 19 - 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.)

Note 20 – Contingent Liabilities

Litigation

The City has been named in a variety of lawsuits in the course of their normal governmental operations. However, the City is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Federal and State Grants

For the period January 1, 2003 to December 31, 2003 the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any would be immaterial.

CITY OF STEUBENVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 21 – Subsequent Events

Water Payment – On May 10, 2005, the City received an unfavorable judgment in an action the City brought against Jefferson County regarding payment for water supply. The settlement amount in favor of the County is in the amount of \$782,000. The judgment entry is a final order by the Court, however, it is subject to the City's right to appeal, and it is likely that the City will do so. The appeal process may be lengthy and in the interim, the City has agreed to provide Jefferson County with water, without expectation of payment for a period of three months with such period extendable by mutual agreement. The value of said water supply will be credited against the amount owed by the City to Jefferson County.

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
DECEMBER 31, 2003**

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Pass-Through Grant Number	Disbursements
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant Entitlement Grants	14.218	B01-MC-39-0020	\$ 549,063
	14.218	B02-MC-39-0020	701,581
Total Entitlement Grants			<u>1,250,644</u>
Passed through Ohio Department of Development HOME Investment Partnerships Program	14.239	A-C02-296-2	<u>65,933</u>
Total U.S. Department of Housing and Urban Development			<u>1,316,577</u>
<u>U.S. Department of Justice</u>			
Local Law Enforcement Block Grant	16.592	01LBBX2318	29
		02LBBX1703	10,611
Sub-total			<u>10,640</u>
Passed-Through Ohio Office of Criminal Justice Services Title V Delinquency Prevention Program	16.548	03JVT505042	<u>87,997</u>
Total U.S. Department of Justice			<u>98,637</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through Ohio Department of Education Summer Food Program for Children	10.559	FY03	<u>159,364</u>
<u>U.S. Department of Transportation</u>			
Passed-Through Ohio Department of Transportation Highway Planning and Construction	20.205	10203	<u>723,634</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-Through Ohio Department of Health Childhood Lead Poisoning Prevention Projects Grant	93.197	41-2-001-1-BD-03	11,403
		41-2-001-1-BD-04	14,718
Total U.S. Department of Health and Human Services			<u>26,121</u>
 Total Federal Financial Assistance			 <u>\$ 2,324,333</u>

The notes to the Schedule of Federal Award Expenditures are an integral part of this schedule.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes 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 funds (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.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Steubenville
Jefferson County
302 Market Street
Steubenville, Ohio 43952

To the City Council:

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, Jefferson County (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, and which includes a reference to the implementation of a new reporting model, as required by the provisions of Governmental Accounting Standards Board, Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and have issued our report thereon dated October 26, 2005. Also, we did not express an opinion on the activity of the Internal Service Fund as certain information related to expenses and liabilities was not available to be audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-004 through 2003-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-004 through 2003-006 listed above to be material weaknesses. In a separate letter to the City's management dated October 26, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable condition.

Compliance

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 through 2003-003. In a separate letter to the City's management dated October 26, 2005, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 26, 2005



Auditor of State Betty Montgomery

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

City of Steubenville
Jefferson County
302 Market Street
Steubenville, Ohio 43952

To the City Council:

Compliance

We have audited the compliance of the City of Steubenville, Jefferson County, Ohio (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 apply its major federal program for the year ended December 31, 2003. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 State 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements

In our opinion, the City of Steubenville complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

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

City of Steubenville
Jefferson County
Independent Accountants' Report On Compliance With Requirements
Applicable To Each Major Federal Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133

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

We intend this report solely for the information and use of the audit committee, management, City Council federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 26, 2005

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	QUALIFIED
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	YES
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	YES
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	NO
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	NO
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA # 14.218
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	NO

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

Finding Number	2003-001
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Non-Compliance Citation

Ohio Revised Code Section 5705.10, states in part that money paid into a fund must be used only for purposes for which the fund is established.

At December 31, 2003, the Sewer Fund and the Refuse Fund had negative net assets of \$1,374,820 and \$4,233,301, respectively. A deficit balance indicates that money from another fund(s) has been used to pay the obligations of the Sewer Fund and the Refuse Fund.

City officials should monitor activity in the Sewer Fund and the Refuse Fund and take necessary measures to ensure that a positive fund balance is maintained.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)

Finding Number	2003-002
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Non-Compliance Citation

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

Appropriations exceeded the amount certified as available by the budget commission in the Sewer Fund by \$406,267.

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances. The City should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the City should submit an amended certificate of estimated resources to the budget commission for certification. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by City Council to reduce the appropriations.

Finding Number	2003-003
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Non-Compliance Citation

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

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

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

If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Council if such expenditure is otherwise valid.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

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 legislative 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 extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The City did not properly certify or record the amount against the applicable appropriation accounts for 35% of tested expenditures in 2003. 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 section 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.

Finding Number	2003-004
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Material Weakness

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

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

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

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

Finding Number	2003-005
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Material Weakness

Ohio Administrative Code Section 117-2-02(B)(1) requires the government's internal controls to reasonably assure that recorded transactions have occurred and are not fictitious. That includes maintaining sufficient documentation for all transactions.

Weaknesses in the City's financial reporting systems are enumerated below:

- Monthly reconciliations included fund balances, deposits in transit, outstanding checks and other reconciling items that were incorrect and unsupported.
- Inaccurate balances were carried until corrections were posted in August 2004.
- The City's Receipt and Appropriation ledgers did not agree to the Annual Financial reports in several fund/accounts.
- The City's financial statements contained various receipts and disbursements that were not properly posted.
- Information to report debt outstanding and amounts due for repayment were not completely and accurately recorded.

In order to present accurate cash reconciliations, adjustments were posted to the City's cash fund balances in the amount of \$325,249. Additionally, certain other errors resulted in reclassifications of receipts and disbursements in the amounts of \$2,196,535 and \$2,171,876, respectively.

The finance department and the council should carefully review these weaknesses and develop internal controls over the City's reporting system which will support the integrity of the City's financial records and reports. Specifically the following procedures should be considered.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

- A review process should be implemented whereby the Finance Director and/or Council would review the cash journal, the receipts and disbursements ledgers and financial statements and document the reviews in the City's record of proceedings of its Council meetings. As part of the review, the Finance Director and the Council should determine whether transactions are posted to the appropriate fund and line item, and that totals in the cash journal, the receipts and disbursements ledgers and financial statements agree and are complete and accurate.
- The Finance Director and/or the Council should review the support for the monthly cash reconciliations and document the reviews.
- The Finance Director and/or the Council should prepare analytics or a comparable mechanism to identify unusual and/or other significant fluctuations in the cash journal and ledgers and take corrective action as necessary.
- The Finance Director and/or the Council should create and put into use spreadsheets or some other system by which debt activity could be accounted for and monitored.

Finding Number	2003-006
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Material Weakness

Sound accounting practices require maintaining a capital asset accounting system that incorporates sufficient information to enable the City to prepare financial statements in accordance with governmental accounting standards.

The City does not have formal management controls in place to effectively track and report capital assets. The City has prepared general purpose statements for the past several years, however, fixed assets were not reported and the accountants' opinion for each of those years was qualified because of the omission. As 2003 is the first year in which basic financial statements are being prepared, a complete and accurate listing of capital assets has become necessary. A computerized capital asset inventory system was available for use by the City; however, the asset listing was not completed for the current year and had not been maintained to provide adequate substantiation for the capital asset amounts to be reported on the basic financial statements. In addition, the City does not have a formal capital asset policy: as such, when the Finance Director requested a list of capital assets from each department in the City, the various departments used inconsistent methods of preparing the lists, including cost determination, identification and useful lives of the assets. Using the lists from each department, an employee of the finance department searched historical records to determine cost, date of acquisition, and accumulated depreciation so that a capital asset inventory list could be prepared.

The capital asset inventory list, which was presented to the accountants preparing the GAAP conversion, had several errors, including assets that were recorded in the wrong class, incorrect accumulated depreciation, inaccurate depreciation expense and one omission for which adjustments of \$500,000 and the related depreciation were posted. Many of the other errors were corrected by the City before the basic financial statements were completed.

The City should implement a comprehensive system to track capital assets to ensure that amounts reported on the financial statements are properly supported. The system of management controls should include, but not be limited to, the following:

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

- Determination of a capitalization threshold and useful life of each class of assets;
- Description and location of each asset;
- Record of the historical cost of each capital asset by department and funding source;
- Method by which additions and deletions to the capital asset inventory can be efficiently posted;
- Assignment of an identification number to each asset;
- Calculation of current depreciation expense and accumulated depreciation for each asset;
- Ability to provide a wide range of management reports needed by City management; and
- Ability to support the accuracy of the capital assets being reported by the City.

In addition to providing assurance that capital assets are accurately reported, a properly designed capital asset accounting and management system will provide the City with the various benefits, including adequate information for City officials as capital asset additions or deletions are being considered. Also, complete and accurate records of capital assets will provide the documentation necessary for insurance claims and should protect assets from misappropriation or misuse.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Ohio Revised Code §5705.41 (D), failure to properly certify expenditures	No-	Re-issued as Finding 2003-003
2002-002	Ohio Revised Code §5705.10, two city funds had negative fund balances.	No	Re-issued as Finding 2003-001
2002-003	City had not established procedures to determine if health insurance claims and data processing services are accurately administered in accordance with contract.	No	Re-issued as Finding 2003-004
2002-004	City's financial statements omitted General Fixed Asset Account group and Proprietary Fund fixed assets.	Yes	



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

CITY OF STEUBENVILLE

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 22, 2005**