

City of Steubenville
Jefferson County, Ohio

Audited Financial Statements

December 31, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Steubenville, Jefferson County, prepared by Rea & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 24, 2007

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2006

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**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

DECEMBER 31, 2006

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July 31, 2007

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Steubenville (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2006, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated July 31, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City of Steubenville
Independent Auditor's Report
July 31, 2007

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hea & Associates, Inc.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

The management's discussion and analysis of the City of Steubenville's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- Ø The total net assets of the City increased \$5,961,395. Net assets of governmental activities increased \$1,508,021 and net assets of business-type activities increased \$4,453,374.
- Ø General revenues accounted for \$12,576,069, or 72.31% of total governmental activities revenue. Program specific revenues accounted for \$4,816,250 or 27.69% of total governmental activities revenue of \$17,392,319.
- Ø The City had \$15,790,373 in expenses related to governmental activities; \$4,816,250 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$10,974,123 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$12,576,069.
- Ø The general fund had revenues and other financing sources of \$11,825,679 in 2006. This represents a decrease of \$2,599,555 from 2005 revenues primarily due to a reduction in transfers in compared to the prior year. The expenditures and other financing uses of the general fund, which totaled \$12,391,008 in 2006, decreased \$946,963 from 2005. The net decrease in fund balance for the general fund was \$565,329, from \$1,500,113 to \$934,784.
- Ø Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, increased in 2006 by \$4,453,374.
- Ø In the general fund, the actual revenues came in \$19,143 below the final budgeted revenues. Actual expenditures were \$151,706 less than the amount in the final budget. This was primarily due to conservative spending. The revenue variances are the result of decreasing income tax and intergovernmental revenues. Budgeted revenues and expenditures were amended a few times throughout the year.

The Basic Financial Statements

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

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

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's statement of net assets and statement of activities can be found on pages 15-17 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental fund is the general fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 18-22 of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and refuse functions. All of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 23-26 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's only fiduciary funds are agency funds. The basic fiduciary fund financial statement can be found on page 27 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28-58 of this report.

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net Assets

	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	2006 Total	2005 Total
<u>Assets</u>						
Current and other assets	\$ 14,051,021	\$ 5,713,066	\$ 14,210,163	\$ 1,773,697	\$ 19,764,087	\$ 15,983,860
Capital assets, net	<u>13,343,970</u>	<u>34,756,910</u>	<u>12,820,572</u>	<u>21,536,302</u>	<u>48,100,880</u>	<u>34,356,874</u>
Total assets	<u>27,394,991</u>	<u>40,469,976</u>	<u>27,030,735</u>	<u>23,309,999</u>	<u>67,864,967</u>	<u>50,340,734</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	5,382,378	35,094,978	5,674,329	23,017,591	40,477,356	28,691,920
Other liabilities	<u>3,267,550</u>	<u>2,088,019</u>	<u>4,119,364</u>	<u>1,458,803</u>	<u>5,355,569</u>	<u>5,578,167</u>
Total liabilities	<u>8,649,928</u>	<u>37,182,997</u>	<u>9,793,693</u>	<u>24,476,394</u>	<u>45,832,925</u>	<u>34,270,087</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	11,569,280	4,329,702	10,295,202	3,617,908	15,898,982	13,913,110
Restricted	6,493,852	-	5,112,255	-	6,493,852	5,112,255
Unrestricted (deficit)	<u>681,931</u>	<u>(1,042,723)</u>	<u>1,829,585</u>	<u>(4,784,303)</u>	<u>(360,792)</u>	<u>(2,954,718)</u>
Total net assets	<u>\$ 18,745,063</u>	<u>\$ 3,286,979</u>	<u>\$ 17,237,042</u>	<u>\$ (1,166,395)</u>	<u>\$ 22,032,042</u>	<u>\$ 16,070,647</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$22,032,042. At year-end, net assets were \$18,745,063 and \$3,286,979 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 70.88% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction-in-progress. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$11,569,280 and \$5,874,015 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2006, the City is able to report positive balances in all three categories of net assets, for the governmental activities.

A portion of the City's net assets, \$6,493,852, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$681,931 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	2006	2005
	Activities	Activities	Activities	Activities	Total	Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,277,370	\$ 11,349,523	\$ 1,534,225	\$ 7,815,624	\$ 12,626,893	\$ 9,349,849
Operating grants and contributions	2,845,380	-	3,299,749	-	2,845,380	3,299,749
Capital grants and contributions	<u>693,500</u>	<u>-</u>	<u>156,930</u>	<u>-</u>	<u>693,500</u>	<u>156,930</u>
Total program revenues	<u>4,816,250</u>	<u>11,349,523</u>	<u>4,990,904</u>	<u>7,815,624</u>	<u>16,165,773</u>	<u>12,806,528</u>
General revenues:						
Property taxes	1,487,416	-	1,433,401	-	1,487,416	1,433,401
Income taxes	8,657,570	-	8,496,116	-	8,657,570	8,496,116
Hotel taxes	2,607	-	237,241	-	2,607	237,241
Unrestricted grants and entitlements	1,899,649	-	1,939,642	-	1,899,649	1,939,642
Investment earnings	233,119	128,394	161,181	72,849	361,513	234,030
Miscellaneous	<u>295,708</u>	<u>36,019</u>	<u>225,647</u>	<u>-</u>	<u>331,727</u>	<u>225,647</u>
Total general revenues	<u>12,576,069</u>	<u>164,413</u>	<u>12,493,228</u>	<u>72,849</u>	<u>12,740,482</u>	<u>12,566,077</u>
Total revenues	<u>17,392,319</u>	<u>11,513,936</u>	<u>17,484,132</u>	<u>7,888,473</u>	<u>28,906,255</u>	<u>25,372,605</u>
Expenses:						
General government	3,068,472	-	3,643,118	-	3,068,472	3,643,118
Security of persons and property	7,396,326	-	7,039,478	-	7,396,326	7,039,478
Public health and welfare	554,806	-	552,773	-	554,806	552,773
Transportation	2,524,113	-	2,662,626	-	2,524,113	2,662,626
Community environment	996,697	-	1,152,806	-	996,697	1,152,806
Leisure time activity	1,094,251	-	1,330,663	-	1,094,251	1,330,663
Interest and fiscal charges	155,708	-	157,898	-	155,708	157,898
Water	-	3,005,936	-	3,883,618	3,005,936	3,883,618
Sewer	-	2,668,393	-	2,926,004	2,668,393	2,926,004
Electric	<u>-</u>	<u>1,480,158</u>	<u>-</u>	<u>1,566,337</u>	<u>1,480,158</u>	<u>1,566,337</u>
Total expenses	<u>15,790,373</u>	<u>7,154,487</u>	<u>16,539,362</u>	<u>8,375,959</u>	<u>22,944,860</u>	<u>24,915,321</u>
Increase (decrease) in net assets before transfers	1,601,946	4,359,449	944,770	(487,486)	5,961,395	457,284
Transfers	<u>(93,925)</u>	<u>93,925</u>	<u>6,896</u>	<u>(6,896)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,508,021	4,453,374	951,666	(494,382)	5,961,395	457,284
Net assets at beginning of year	<u>17,237,042</u>	<u>(1,166,395)</u>	<u>16,285,376</u>	<u>(672,013)</u>	<u>16,070,647</u>	<u>15,613,363</u>
Net assets at end of year	<u>\$ 18,745,063</u>	<u>\$ 3,286,979</u>	<u>\$ 17,237,042</u>	<u>\$ (1,166,395)</u>	<u>\$ 22,032,042</u>	<u>\$ 16,070,647</u>

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

Governmental activities net assets increased \$1,508,021 in 2006. The increase is a result of increasing revenues, due to increased income tax collections during 2006, as well as decreasing expenses, which was the result of budget cuts made by the City.

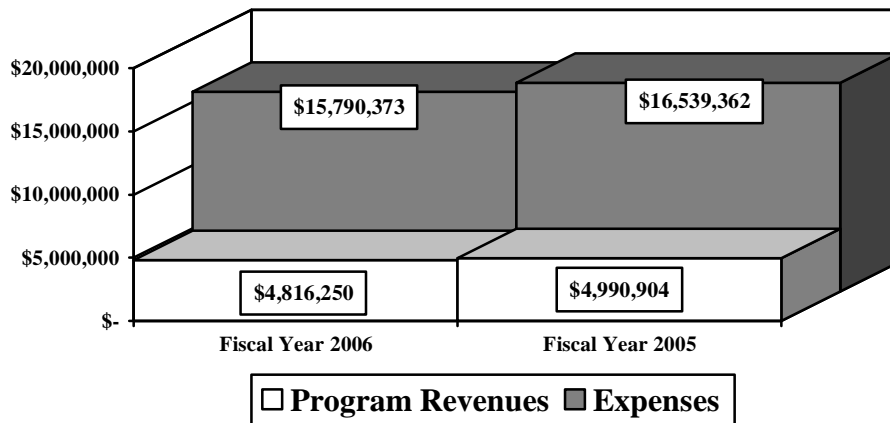
Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$7,396,326 which accounted for 46.84% of the total governmental activities expenses of the City. These expenses were partially funded by \$4,968 in operating grants and contributions and \$693,500 in capital grants and contributions. General government expenses totaled \$3,068,472 or 19.43% of the total governmental activities expenses of the City, which was partially funded by \$859,967 in direct user charges and \$172,858 in operating grants and contributions.

The state and federal government contributed to the City a total of \$2,845,380 in operating grants and contributions.

General revenues totaled \$12,576,069 and amounted to 72.31% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$10,144,986. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$1,899,649.

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

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF STEUBENVILLE, OHIO

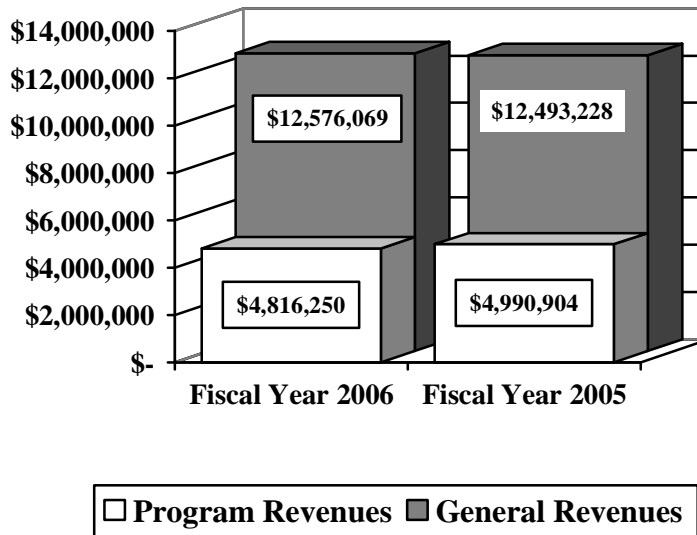
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 3,068,472	\$ 2,035,647	\$ 3,643,118	\$ 2,344,399
Security of persons and property	7,396,326	6,697,858	7,039,478	6,873,147
Public health and welfare	554,806	438,569	552,773	436,026
Transportation	2,524,113	832,816	2,662,626	492,787
Community environment	996,697	7,041	1,152,806	189,319
Leisure time activity	1,094,251	806,484	1,330,663	1,054,882
Interest and fiscal charges	<u>155,708</u>	<u>155,708</u>	<u>157,898</u>	<u>157,898</u>
Total	<u>\$ 15,790,373</u>	<u>\$ 10,974,123</u>	<u>\$ 16,539,362</u>	<u>\$ 11,548,458</u>

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

Governmental Activities – General and Program Revenues



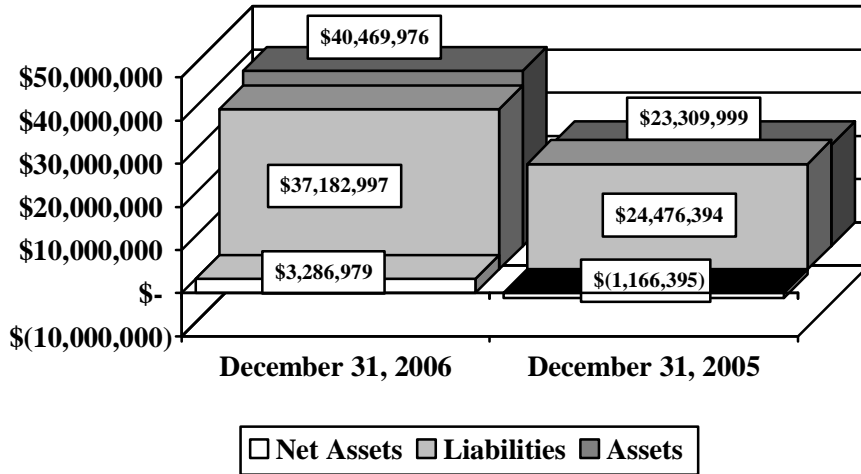
CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$11,349,523, general revenues of \$164,413, and expenses of \$7,154,487 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government’s Funds

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

Governmental Funds

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

The City’s governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$5,950,060, which is \$596,282 higher than the previous year’s fund balance of \$5,353,778. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/06</u>	Fund Balances <u>12/31/05</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 934,784	\$ 1,500,113	\$ (565,329)
Other nonmajor governmental funds	<u>5,015,276</u>	<u>3,853,665</u>	<u>1,161,611</u>
Total	<u>\$ 5,950,060</u>	<u>\$ 5,353,778</u>	<u>\$ 596,282</u>

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

General Fund

The City's general fund balance decreased \$565,329. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 8,572,510	\$ 8,699,210	(1.46) %
Charges for services	112,981	139,830	(19.20) %
Licenses and permits	497,937	428,508	16.20 %
Fines and forfeitures	353,892	582,270	(39.22) %
Investment income	221,798	144,510	53.48 %
Intergovernmental	1,922,845	1,996,091	(3.67) %
Rental income	105,189	89,754	17.20 %
Other	<u>38,495</u>	<u>184,659</u>	(79.15) %
Total	<u>\$ 11,825,647</u>	<u>\$ 12,264,832</u>	(3.58) %

Tax revenue represents 72.49% of all general fund revenue. The most significant increase in revenues occurred in investment income, due to increases in interest rates by the Federal Reserve. Fines and forfeitures decreased due to a decrease in the number of citations during 2006.

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

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 2,636,535	\$ 3,068,939	(14.09) %
Security of persons and property	7,280,826	7,024,264	3.65 %
Public health and welfare	462,589	450,214	2.75 %
Transportation	983,173	1,498,514	(34.39) %
Community environment	59,378	49,641	19.61 %
Leisure time activity	789,803	1,081,458	(26.97) %
Capital outlay	-	7,377	(100.00) %
Debt service	<u>155,178</u>	<u>154,265</u>	0.59 %
Total	<u>\$ 12,367,482</u>	<u>\$ 13,334,672</u>	(7.25) %

The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to overall cost increases in purchased goods and services. The decrease in general government is partially due to the liability for litigation in the previous year, along with reductions made to expenditures in general government to reduce spending. The decrease in transportation expenditures was due to a large reimbursement from a nonmajor fund to the General fund reducing transportation expenditures in 2006. The decrease in leisure time activities was due to reductions in anticipation of selling the golf course, which the City opened in 2006 but kept spending down. The gold course was sold during 2007.

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Budgeting Highlights

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

Budgetary information is presented for the general fund only. In the general fund, estimated revenues increased \$540,435, due to increased collection of income taxes reimbursements. Appropriations were increased by \$836,361 during 2006. Increases to the appropriations were primarily due to increasing health care costs, costs related to the golf course which was not originally expected to open and other increased costs. Actual revenues and other financing sources of \$13,626,882 were lower than final budgeted revenues and other financing sources by \$19,143. Actual expenditures and other financing uses of \$15,237,610 came in \$151,706 less than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$48,100,880 (net of accumulated depreciation) invested in land, buildings, improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$13,343,970 was reported in governmental activities and \$34,756,910 was reported in business-type activities. The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at December 31					
	(Net of Depreciation)					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 296,013	\$ 296,013	\$ 36,000	\$ 36,000	\$ 332,013	\$ 332,013
Construction-in-progress	264,610	321,650	19,347,786	5,912,442	19,612,396	6,234,092
Buildings	1,567,367	1,620,546	889,123	945,243	2,456,490	2,565,789
Improvements	750,778	799,973	20,925	21,362	771,703	821,335
Equipment	484,888	473,203	147,840	157,927	632,728	631,130
Vehicles	1,397,421	677,951	316,657	313,254	1,714,078	991,205
Infrastructure	<u>8,582,893</u>	<u>8,631,236</u>	<u>13,998,579</u>	<u>14,150,074</u>	<u>22,581,472</u>	<u>22,781,310</u>
Totals	<u>\$ 13,343,970</u>	<u>\$ 12,820,572</u>	<u>\$ 34,756,910</u>	<u>\$ 21,536,302</u>	<u>\$ 48,100,880</u>	<u>\$ 34,356,874</u>

CITY OF STEUBENVILLE, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The City's largest capital asset category is infrastructure which includes roads constructed from 2003 through 2006, since the City is phasing-in the retroactive reporting of infrastructure. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 64.32% of the City's total governmental capital assets.

The City's second largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 40.28% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005. Additional details are provided in Note 11 of the notes to the financial statements.

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Loans payable	\$ 1,759,540	\$ 2,076,248
Compensated absences	1,494,113	1,424,019
Capital lease obligation payable	15,150	22,790
Police and Fire Pension liability	<u>2,113,575</u>	<u>2,151,272</u>
Total long-term obligations	<u>\$ 5,382,378</u>	<u>\$ 5,674,329</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
Long-term notes payable	\$ 135,257	\$ 42,334
Capital lease obligation payable	20,121	29,495
OWDA Loans	24,804,345	12,914,181
OPWC Loans	531,372	581,206
Bond anticipation note	652,000	-
Landfill Closure/Postclosure	5,131,025	5,285,723
Compensated absences	429,058	587,918
Loans payable	145,816	162,734
Bonds payable	<u>3,245,984</u>	<u>3,414,000</u>
Total long-term obligations	<u>\$ 35,094,978</u>	<u>\$ 23,017,591</u>

CITY OF STEUBENVILLE, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Economic Conditions and Outlook

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

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

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

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

Contacting the City's Financial Management

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

CITY OF STEUBENVILLE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 6,375,617	\$ 4,979,853	\$ 11,355,470
Receivables (net of allowances for uncollectibles):			
Income taxes	2,264,893	-	2,264,893
Real and other taxes	1,834,716	-	1,834,716
Accounts	3,503	1,086,458	1,089,961
Special assessments	159,330	-	159,330
Internal balances	362,762	(362,762)	-
Due from other governments	2,725,986	-	2,725,986
Prepayments	11,630	9,517	21,147
Materials and supplies inventory.	312,584	-	312,584
Capital assets:			
Land and construction-in-progress	560,623	19,383,786	19,944,409
Depreciable capital assets, net	12,783,347	15,373,124	28,156,471
Total capital assets, net	13,343,970	34,756,910	48,100,880
 Total assets.	 <u>27,394,991</u>	 <u>40,469,976</u>	 <u>67,864,967</u>
Liabilities:			
Accounts payable.	171,982	77,823	249,805
Contracts payable.	-	1,544,313	1,544,313
Accrued wages and benefits	284,890	76,288	361,178
Accrued vacation payable	474,968	163,805	638,773
Due to other governments	850,101	206,502	1,056,603
Deferred revenue.	1,394,042	-	1,394,042
Accrued interest payable.	32,304	19,288	51,592
Claims payable.	59,263	-	59,263
Long-term liabilities:			
Due within one year	372,224	1,607,935	1,980,159
Due in more than one year	5,010,154	33,487,043	38,497,197
 Total liabilities	 <u>8,649,928</u>	 <u>37,182,997</u>	 <u>45,832,925</u>
Net assets:			
Invested in capital assets, net of related debt	11,569,280	4,329,702	15,898,982
Restricted for:			
Capital projects.	6,163	-	6,163
Debt service	349,711	-	349,711
Street construction, maintenance and repairs.	1,901,304	-	1,901,304
Police and fire	22,519	-	22,519
Court computer.	77,582	-	77,582
Recreation	387,185	-	387,185
Community development.	1,433,165	-	1,433,165
Health programs	170,125	-	170,125
Safety programs	1,334,423	-	1,334,423
Other purposes	811,675	-	811,675
Unrestricted (deficit)	681,931	(1,042,723)	(360,792)
 Total net assets	 <u>\$ 18,745,063</u>	 <u>\$ 3,286,979</u>	 <u>\$ 22,032,042</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 3,068,472	\$ 859,967	\$ 172,858	\$ -
Security of persons and property.	7,396,326	-	4,968	693,500
Public health and welfare	554,806	116,237	-	-
Transportation	2,524,113	42,126	1,649,171	-
Community environment.	996,697	117,697	871,959	-
Leisure time activity	1,094,251	141,343	146,424	-
Interest and fiscal charges.	155,708	-	-	-
Total governmental activities	<u>15,790,373</u>	<u>1,277,370</u>	<u>2,845,380</u>	<u>693,500</u>
Business-type Activities:				
Water	3,005,936	5,208,970	-	-
Sewer	2,668,393	4,261,270	-	-
Refuse.	1,480,158	1,879,283	-	-
Total business-type activities	<u>7,154,487</u>	<u>11,349,523</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 22,944,860</u>	<u>\$ 12,626,893</u>	<u>\$ 2,845,380</u>	<u>\$ 693,500</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Debt service	
Income taxed levied for:	
General purposes.	
Street fund	
Other taxes:	
Hotel occupancy taxes	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues.	
Increase in net assets before transfers	
Transfers.	
Change in net assets.	
Net assets (deficit) at beginning of year	
Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,035,647)	\$ -	\$ (2,035,647)
(6,697,858)	-	(6,697,858)
(438,569)	-	(438,569)
(832,816)	-	(832,816)
(7,041)	-	(7,041)
(806,484)	-	(806,484)
(155,708)	-	(155,708)
<u>(10,974,123)</u>	<u>-</u>	<u>(10,974,123)</u>
-	2,203,034	2,203,034
-	1,592,877	1,592,877
-	399,125	399,125
<u>-</u>	<u>4,195,036</u>	<u>4,195,036</u>
<u>(10,974,123)</u>	<u>4,195,036</u>	<u>(6,779,087)</u>
1,250,706	-	1,250,706
236,710	-	236,710
7,562,801	-	7,562,801
1,094,769	-	1,094,769
2,607	-	2,607
1,899,649	-	1,899,649
233,119	128,394	361,513
295,708	36,019	331,727
<u>12,576,069</u>	<u>164,413</u>	<u>12,740,482</u>
1,601,946	4,359,449	5,961,395
<u>(93,925)</u>	<u>93,925</u>	<u>-</u>
1,508,021	4,453,374	5,961,395
<u>17,237,042</u>	<u>(1,166,395)</u>	<u>16,070,647</u>
<u>\$ 18,745,063</u>	<u>\$ 3,286,979</u>	<u>\$ 22,032,042</u>

CITY OF STEUBENVILLE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,202,198	\$ 4,888,160	\$ 6,090,358
Receivables (net of allowance for uncollectibles):			
Income taxes	2,213,930	50,963	2,264,893
Real and other taxes.	1,554,555	280,161	1,834,716
Accounts	3,103	400	3,503
Special assessments.	-	159,330	159,330
Due from other funds	397,432	-	397,432
Due from other governments	954,090	1,771,896	2,725,986
Prepayments.	10,346	1,284	11,630
Materials and supplies inventory	190,000	122,584	312,584
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 6,525,654</u>	<u>\$ 7,274,778</u>	<u>\$ 13,800,432</u>
Liabilities:			
Accounts payable	\$ 160,249	\$ 11,733	\$ 171,982
Accrued wages and benefits.	277,163	7,727	284,890
Compensated absences payable.	164,225	-	164,225
Due to other governments.	781,590	68,511	850,101
Deferred revenue	4,207,643	2,171,531	6,379,174
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>5,590,870</u>	<u>2,259,502</u>	<u>7,850,372</u>
Fund Balances:			
Reserved for encumbrances.	1,155,162	422,622	1,577,784
Reserved for prepayments	10,346	1,284	11,630
Reserved for materials and supplies inventory	190,000	122,584	312,584
Unreserved, undesignated (deficit), reported in:			
General fund.	(420,724)	-	(420,724)
Special revenue funds.	-	4,175,135	4,175,135
Debt service funds	-	287,488	287,488
Capital projects funds.	-	6,163	6,163
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>934,784</u>	<u>5,015,276</u>	<u>5,950,060</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances.	<u>\$ 6,525,654</u>	<u>\$ 7,274,778</u>	<u>\$ 13,800,432</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, 2006

Total governmental fund balances		\$ 5,950,060
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,343,970
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 2,003,972	
Property taxes	425,422	
Intergovernmental revenues	2,396,408	
Special assessments	159,330	
Total		4,985,132
Internal service funds are used by management to charge the costs of the government center, service center and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net assets of the internal service funds, including internal balances of \$34,670, are:		191,326
In the statement of activities interest is accrued on outstanding loans and notes whereas in governmental funds, interest expenditures are reported when due.		(32,304)
In the statement of activities vacation is accrued for leave accrued whereas in governmental funds, vacation leave expenditures are reported when taken.		(474,968)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(1,329,888)	
Police and fire pension liability	(2,113,575)	
Loans payable	(1,759,540)	
Capital lease payable	(15,150)	
Total		(5,218,153)
Net assets of governmental activities		\$ 18,745,063

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Municipal income taxes	\$ 7,358,188	\$ 1,090,054	\$ 8,448,242
Property and other taxes	1,214,322	233,600	1,447,922
Charges for services	112,981	4,461	117,442
Licenses and permits	497,937	76,903	574,840
Fines and forfeitures	353,892	46,323	400,215
Intergovernmental	1,922,845	3,627,353	5,550,198
Special assessments	-	21,917	21,917
Investment income	221,798	32,589	254,387
Rental income	105,189	-	105,189
Other	38,495	294,623	333,118
Total revenues	<u>11,825,647</u>	<u>5,427,823</u>	<u>17,253,470</u>
Expenditures:			
Current:			
General government	2,636,535	357,913	2,994,448
Security of persons and property	7,280,826	23,869	7,304,695
Public health and welfare	462,589	88,047	550,636
Transportation	983,173	998,864	1,982,037
Community environment	59,378	936,131	995,509
Leisure time activity	789,803	233,437	1,023,240
Capital outlay	-	1,286,959	1,286,959
Debt service:			
Principal retirement	60,214	301,831	362,045
Interest and fiscal charges	94,964	62,588	157,552
Total expenditures	<u>12,367,482</u>	<u>4,289,639</u>	<u>16,657,121</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(541,835)</u>	<u>1,138,184</u>	<u>596,349</u>
Other financing sources (uses):			
Transfers in	32	54,660	54,692
Transfers out	<u>(23,526)</u>	<u>(31,233)</u>	<u>(54,759)</u>
Total other financing sources (uses)	<u>(23,494)</u>	<u>23,427</u>	<u>(67)</u>
Net change in fund balances	(565,329)	1,161,611	596,282
Fund balances at beginning of year	<u>1,500,113</u>	<u>3,853,665</u>	<u>5,353,778</u>
Fund balances at end of year	<u>\$ 934,784</u>	<u>\$ 5,015,276</u>	<u>\$ 5,950,060</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, 2006

Net change in fund balances - total governmental funds		\$ 596,282
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	\$ 1,339,728	
Current year depreciation	<u>(816,330)</u>	
Total		523,398
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	209,328	
Property taxes	42,101	
Intergovernmental revenues	(111,669)	
Special assessments	<u>(4,699)</u>	
Total		135,061
 Repayment of loan and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		362,045
 In the statement of activities, interest is accrued on outstanding loans and notes, whereas in governmental funds, an interest expenditure is reported when due.		
		1,844
 In the statement of activities, vacation leave is accrued when earned, whereas in governmental funds, an expenditure is reported when vacation leave is taken.		
		(2,344)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		
		(158,194)
 Internal service funds are used by management to charge the costs of the health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service funds revenues are eliminated. The net revenue (expense) of the internal service funds, including internal balances of \$44,761, is allocated among the governmental activities.		
		<u>49,929</u>
Change in net assets of governmental activities		<u>\$ 1,508,021</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 7,326,000	\$ 7,285,140	\$ 7,385,108	\$ 99,968
Property and other taxes	1,290,826	1,345,778	1,329,833	(15,945)
Charges for services	116,250	232,185	215,357	(16,828)
Licenses and permits.	476,380	497,839	497,847	8
Fines and forfeitures.	303,000	382,137	353,892	(28,245)
Intergovernmental	1,646,634	1,888,876	1,983,717	94,841
Investment income	65,000	101,664	221,798	120,134
Rental income.	-	-	105,189	105,189
Other	1,876,500	1,902,125	1,523,828	(378,297)
Total revenues.	<u>13,100,590</u>	<u>13,635,744</u>	<u>13,616,569</u>	<u>(19,175)</u>
Expenditures:				
Current:				
General government	5,450,346	5,763,578	5,691,684	71,894
Security of persons and property	6,556,517	6,933,322	7,012,508	(79,186)
Public health and welfare.	411,479	435,127	429,941	5,186
Transportation	1,183,077	1,251,069	1,210,107	40,962
Community environment	46,535	49,209	49,008	201
Leisure time activity	889,651	940,779	803,604	137,175
Debt service:				
Principal retirement	14,084	14,893	14,893	-
Interest and fiscal charges	1,266	1,339	2,339	(1,000)
Total expenditures.	<u>14,552,955</u>	<u>15,389,316</u>	<u>15,214,084</u>	<u>175,232</u>
Deficiency of revenues under expenditures	<u>(1,452,365)</u>	<u>(1,753,572)</u>	<u>(1,597,515)</u>	<u>156,057</u>
Other financing sources (uses):				
Sale of capital assets.	5,000	10,281	10,281	-
Transfers in	-	-	32	32
Transfers out	-	-	(23,526)	(23,526)
Total other financing sources (uses).	<u>5,000</u>	<u>10,281</u>	<u>(13,213)</u>	<u>(23,494)</u>
Net change in fund balance	(1,447,365)	(1,743,291)	(1,610,728)	132,563
Fund balance at beginning of year	169,476	169,476	169,476	-
Prior year encumbrances appropriated	<u>1,846,764</u>	<u>1,846,764</u>	<u>1,846,764</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 568,875</u>	<u>\$ 272,949</u>	<u>\$ 405,512</u>	<u>\$ 132,563</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities -Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 4,172,733	\$ -	\$ 807,120	\$ 4,979,853	\$ 285,259
Receivables (net of allowance for uncollectibles):					
Accounts	304,907	549,458	232,093	1,086,458	-
Prepayments	3,304	2,909	3,304	9,517	-
Total current assets	<u>4,480,944</u>	<u>552,367</u>	<u>1,042,517</u>	<u>6,075,828</u>	<u>285,259</u>
Noncurrent assets:					
Capital assets:					
Land and construction-in-progress	18,094,486	1,289,300	-	19,383,786	-
Depreciable capital assets, net	13,075,457	2,085,649	212,018	15,373,124	-
Total capital assets, net	#####	3,374,949	212,018	34,756,910	-
Total noncurrent assets	<u>31,169,943</u>	<u>3,374,949</u>	<u>212,018</u>	<u>34,756,910</u>	<u>-</u>
Total assets	<u>35,650,887</u>	<u>3,927,316</u>	<u>1,254,535</u>	<u>40,832,738</u>	<u>285,259</u>
Liabilities:					
Current liabilities:					
Accounts payable	35,517	11,705	30,601	77,823	-
Contracts payable	1,544,313	-	-	1,544,313	-
Accrued wages and benefits	32,974	27,144	16,170	76,288	-
Due to other funds	-	397,432	-	397,432	-
Due to other governments	98,849	63,669	43,984	206,502	-
Accrued vacation payable	68,614	61,613	33,578	163,805	-
Accrued interest payable	8,093	8,978	2,217	19,288	-
Current portion of compensated absences	40,450	73,053	16,022	129,525	-
Current portion of OPWC loans	26,819	23,015	-	49,834	-
Current portion of OWDA loans	1,164,024	29,701	-	1,193,725	-
Current portion of bonds payable	137,275	39,448	-	176,723	-
Current portion of capital lease obligation	-	9,825	-	9,825	-
Current portion of notes payable	-	-	37,678	37,678	-
Current portion of loans payable	-	10,625	-	10,625	-
Claims payable	-	-	-	-	59,263
Total current liabilities	<u>3,156,928</u>	<u>756,208</u>	<u>180,250</u>	<u>4,093,386</u>	<u>59,263</u>
Long-term liabilities:					
Compensated absences	131,335	118,658	49,540	299,533	-
OPWC loans	320,433	161,105	-	481,538	-
OWDA loans	23,429,421	181,199	-	23,610,620	-
General obligation bonds payable	1,846,118	1,223,143	-	3,069,261	-
Notes payable	-	-	97,579	97,579	-
Bond anticipation note payable	-	652,000	-	652,000	-
Loans payable	-	135,191	-	135,191	-
Capital lease obligation	-	10,296	-	10,296	-
Landfill closure/postclosure	-	-	5,131,025	5,131,025	-
Total long-term liabilities	<u>25,727,307</u>	<u>2,481,592</u>	<u>5,278,144</u>	<u>33,487,043</u>	<u>-</u>
Total liabilities	<u>28,884,235</u>	<u>3,237,800</u>	<u>5,458,394</u>	<u>37,580,429</u>	<u>59,263</u>
Net assets:					
Invested in capital assets, net of related debt	2,701,540	1,551,401	76,761	4,329,702	-
Unrestricted (deficit)	4,065,112	(861,885)	(4,280,620)	(1,077,393)	225,996
Total net assets	<u>\$ 6,766,652</u>	<u>\$ 689,516</u>	<u>\$ (4,203,859)</u>	<u>3,252,309</u>	<u>\$ 225,996</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				34,670	
Net assets of business-type activities				<u>\$ 3,286,979</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds				Governmental
	Water	Sewer	Refuse	Total	Activities - Internal Service Funds
Operating revenues:					
Charges for services	\$ 5,208,970	\$ 4,261,270	\$ 1,879,283	\$ 11,349,523	\$ 1,632,863
Other	26,625	826	8,568	36,019	-
Total operating revenues	<u>5,235,595</u>	<u>4,262,096</u>	<u>1,887,851</u>	<u>11,385,542</u>	<u>1,632,863</u>
Operating expenses:					
Personal services	1,585,189	1,258,016	814,540	3,657,745	-
Contract services	-	29,799	427,707	457,506	-
Materials and supplies	118,620	906,948	188,957	1,214,525	-
Utilities	405,972	254,183	14,075	674,230	-
Depreciation and amortization	319,686	108,653	37,434	465,773	-
Other	341	-	-	341	-
Claims	-	-	-	-	1,541,961
Total operating expenses	<u>2,429,808</u>	<u>2,557,599</u>	<u>1,482,713</u>	<u>6,470,120</u>	<u>1,541,961</u>
Operating income	<u>2,805,787</u>	<u>1,704,497</u>	<u>405,138</u>	<u>4,915,422</u>	<u>90,902</u>
Nonoperating revenue (expenses):					
Interest revenue	87,924	28,017	12,453	128,394	3,788
Interest expense and fiscal charges	(599,064)	(126,361)	(3,703)	(729,128)	-
Total nonoperating revenues (expenses)	<u>(511,140)</u>	<u>(98,344)</u>	<u>8,750</u>	<u>(600,734)</u>	<u>3,788</u>
Income before transfers and capital contributions	2,294,647	1,606,153	413,888	4,314,688	94,690
Capital contributions	-	93,858	-	93,858	-
Transfers in	67	-	-	67	-
Changes in net assets	2,294,714	1,700,011	413,888	4,408,613	94,690
Net assets (deficits) at beginning of year	<u>4,471,938</u>	<u>(1,010,495)</u>	<u>(4,617,747)</u>		<u>131,306</u>
Net assets (deficit) at end of year	<u>\$ 6,766,652</u>	<u>\$ 689,516</u>	<u>\$ (4,203,859)</u>		<u>\$ 225,996</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				44,761	
Changes in net assets of business-type activities				<u>\$ 4,453,374</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, 2006

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>	Activities - Internal Service Funds
Cash flows from operating activities:					
Cash received from charges for services	\$ 5,294,881	\$ 4,264,009	\$ 1,808,896	\$ 11,367,786	\$ 1,632,863
Cash received from other operations	26,625	826	8,568	36,019	-
Cash payments for personal services	(1,719,429)	(1,406,427)	(915,869)	(4,041,725)	-
Cash payments for contract services.	(275,774)	(83,932)	(429,641)	(789,347)	-
Cash payments for materials and supplies.	(119,503)	(1,062,294)	(315,003)	(1,496,800)	-
Cash payments for utilities	(405,972)	(254,183)	(14,075)	(674,230)	-
Cash payments for other expenses	(341)	-	-	(341)	-
Cash payments for claims.	-	-	-	-	(1,581,057)
Net cash provided by operating activities.	<u>2,800,487</u>	<u>1,457,999</u>	<u>142,876</u>	<u>4,401,362</u>	<u>51,806</u>
Cash flows from noncapital financing activities:					
Cash received from interfund loans.	-	397,432	-	397,432	-
Cash used in repayment of interfund loans	-	(1,798,735)	-	(1,798,735)	-
Cash received from transfers in.	<u>67</u>	<u>-</u>	<u>-</u>	<u>67</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>67</u>	<u>(1,401,303)</u>	<u>-</u>	<u>(1,401,236)</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets.	(12,290,295)	(215,163)	-	(12,505,458)	-
Landfill closure/postclosure expenses	-	-	(154,698)	(154,698)	-
Principal retirement on OPWC loans.	(26,819)	(23,015)	-	(49,834)	-
Principal retirement on OWDA loans.	(1,125,350)	(309,685)	-	(1,435,035)	-
Principal retirement on loans	-	(16,918)	-	(16,918)	-
Principal retirement on notes	-	-	(26,077)	(26,077)	-
Principal retirement on lease	-	(9,374)	-	(9,374)	-
Principal retirement on general obligation bonds	(130,607)	(37,409)	-	(168,016)	-
Loan issuance	13,325,199	-	-	13,325,199	-
Note issuance	-	-	119,000	119,000	-
Bond anticipation note issuance.	-	652,000	-	652,000	-
Interest and fiscal charges.	(596,246)	(125,149)	(1,486)	(722,881)	-
Net cash used in capital and related financing activities	<u>(844,118)</u>	<u>(84,713)</u>	<u>(63,261)</u>	<u>(992,092)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	<u>87,924</u>	<u>28,017</u>	<u>12,453</u>	<u>128,394</u>	<u>3,788</u>
Net cash provided by investing activities	<u>87,924</u>	<u>28,017</u>	<u>12,453</u>	<u>128,394</u>	<u>3,788</u>
Net increase in cash and cash equivalents	2,044,360	-	92,068	2,136,428	55,594
Cash and cash equivalents at beginning of year	<u>2,128,373</u>	<u>-</u>	<u>715,052</u>	<u>2,843,425</u>	<u>229,665</u>
Cash and cash equivalents at end of year.	<u>\$ 4,172,733</u>	<u>\$ -</u>	<u>\$ 807,120</u>	<u>\$ 4,979,853</u>	<u>\$ 285,259</u>

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CITY OF STEUBENVILLE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

(SEE ACCOUNTANT'S COMPILATION REPORT)

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Water	Sewer	Refuse	Total	
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 2,805,787	\$ 1,704,497	\$ 405,138	\$ 4,915,422	\$ 90,902
Adjustments:					
Depreciation and amortization	319,686	108,653	37,434	465,773	-
Changes in assets and liabilities:					
(Increase) in accounts receivable	85,911	2,739	(70,387)	18,263	-
Decrease in due from other funds	179,860	-	-	179,860	-
(Increase) decrease in prepayments	(351)	44	(351)	(658)	-
Decrease in accounts payable	(8,605)	(29,482)	(468)	(38,555)	-
Decrease in contracts payable	(264,738)	(52,458)	-	(317,196)	-
Decrease in accrued wages and benefits	(9,170)	(3,480)	(3,277)	(15,927)	-
Decrease in compensated absences payable	(93,902)	(52,386)	(12,572)	(158,860)	-
Increase (decrease) in accrued vacation payable.	(83,126)	634	2,163	(80,329)	-
Decrease in due to other funds.	(126,329)	(215,888)	(212,125)	(554,342)	-
Decrease in due to other governments.	(4,536)	(4,874)	(2,679)	(12,089)	-
Decrease in claims payable	-	-	-	-	(39,096)
Net cash provided by operating activities	\$ 2,800,487	\$ 1,457,999	\$ 142,876	\$ 4,401,362	\$ 51,806
Non-cash transactions:					
Contributions from other funds.	\$ -	\$ 93,858	\$ -		\$ -
Purchased on account December 31, 2005	457,020	-	-		-
Purchased on account December 31, 2006	1,544,313	-	-		-

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 259,662
Cash in segregated accounts	<u>2,077</u>
Total assets.	<u>\$ 261,739</u>
 Liabilities:	
Accounts payable	\$ 120
Undistributed monies	2,077
Deposits held and due to others.	<u>259,542</u>
Total liabilities	<u>\$ 261,739</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

B. Basis of Presentation - Fund Accounting

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

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

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

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

C. Fund Accounting

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

E. Basis of Accounting

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

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

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

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Data

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

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

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

G. Cash and Cash Equivalents

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

During fiscal year 2006, the City had no investments.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2006, interest revenue credited to the general fund amounted to \$221,798 which includes \$146,670 assigned from other City funds.

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

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

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

H. Inventories of Materials and Supplies

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

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

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of streets, irrigation systems, and water and sewer lines. The City has opted to phase in the retroactive reporting of infrastructure capital assets. Therefore, only the infrastructure for fiscal years 2004 through 2006 has been reported in the governmental activities capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

J. Compensated Absences

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

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Activity

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

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

M. Interfund Balances

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

N. Fund Balance Reserves and Designations

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

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

O. Estimates

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

P. Net Assets

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

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

Q. Operating Revenues and Expenses

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation. For 2006 there were no net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Deficit Fund Balances/Net Assets

The following funds had deficit fund balances/net assets as of December 31, 2006:

Major Funds

Refuse	\$ 4,203,859
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Nonmajor Fund

Summer Food Program	1,279
Community Development	24,885

All of the above funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. These fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur. The deficit net assets in the refuse fund is caused by the reporting of a liability for estimated closure and post-closure care costs for the municipal landfill. The liability for estimated closure and post-closure care costs is more fully described in Note 16.

C. Compliance

Contrary to Ohio Revised Code Section 5705.10, the City had a negative cash balance in the sewer enterprise fund of \$397,432. For GAAP purposes, this amount has been reported as fund liability (see Note 5.B.).

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

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

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

A. Cash in Segregated Accounts

At year-end, the City had \$2,077 deposited with a financial institution for monies related to the Mayor's Court which is reported as an agency fund, the entire balance is covered by FDIC. These amounts are not included in the City's depository balance below.

B. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$11,615,132. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$11,051,119 of the City's bank balance of \$11,653,616 was exposed to custodial risk as discussed below, while \$602,497 was covered by Federal Deposit Insurance Corporation.

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

C. Reconciliation of Cash to the Statement of Net Assets

The following is a reconciliation of cash as reported in the footnote above to cash as reported on the statement of net assets as of December 31, 2006:

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 11,615,132
Cash in segregated accounts	<u>2,077</u>
Total	<u>\$ 11,617,209</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,375,617
Business type activities	4,979,853
Agency funds	<u>261,739</u>
Total	<u>\$ 11,617,209</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

Transfers to General Fund From:	
Nonmajor Governmental Fund	\$ 32
Transfers to Nonmajor Governmental Funds from:	
General fund	23,526
Nonmajor governmental fund	31,134
Transfers to Water Fund from:	
Nonmajor Governmental Fund	<u>67</u>
Total Transfers	<u>\$ 54,759</u>

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

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

- B. Due to/from other funds consisted for the following at December 31, 2006, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Sewer	\$ 397,432

The loan was made to cover a negative cash balance in the sewer fund. The loan appears as a fund liability on the fund financial statements and as a component of the internal balance between governmental and business-type funds on the government-wide financial statements.

Due to/from other funds between governmental activities are eliminated on the statement of net assets.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - TAXES

A. Property Taxes

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

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

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2004. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Steubenville. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2006 was \$8.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 206,432,060
Public utility tangible personal property	22,470,997
Tangible personal property	<u>13,051,460</u>
Total	<u>\$ 241,954,517</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 – TAXES – (Continued)

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, 2006, and for which there is an enforceable legal claim. In the general fund, the entire receivable has been offset by deferred revenue since the current taxes are not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, collectible delinquent property taxes have been recorded as revenue.

B. Municipal Income Tax

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

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

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlements and special assessments. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

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

Governmental Activities:

Income taxes	\$2,264,893
Real and other taxes	1,834,716
Accounts	3,503
Special assessments	159,330
Intergovernmental	2,725,986

Business-type Activities:

Accounts	1,086,458
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Receivables have been disaggregated on the face of the financial statements. All receivables are expected to be collected within the subsequent year, with the exception of special assessments which will be collected over the life of the assessment.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 296,013	\$ -	\$ -	\$ 296,013
Construction in progress	<u>321,650</u>	<u>328,021</u>	<u>(385,061)</u>	<u>264,610</u>
Total capital assets, not being depreciated	<u>617,663</u>	<u>328,021</u>	<u>(385,061)</u>	<u>560,623</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,776,366	-	-	2,776,366
Improvements	1,568,363	24,970	-	1,593,333
Equipment	846,281	73,767	(20,000)	900,048
Vehicles	3,143,554	882,230	(99,792)	3,925,992
Infrastructure	<u>9,355,534</u>	<u>415,801</u>	<u>-</u>	<u>9,771,335</u>
Total capital assets, being depreciated	<u>17,690,098</u>	<u>1,396,768</u>	<u>(119,792)</u>	<u>18,967,074</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(1,155,820)	(53,179)	-	(1,208,999)
Improvements	(768,390)	(74,165)	-	(842,555)
Equipment	(373,078)	(62,082)	20,000	(415,160)
Vehicles	(2,465,603)	(162,760)	99,792	(2,528,571)
Infrastructure	<u>(724,298)</u>	<u>(464,144)</u>	<u>-</u>	<u>(1,188,442)</u>
Total accumulated depreciation	<u>(5,487,189)</u>	<u>(816,330)</u>	<u>119,792</u>	<u>(6,183,727)</u>
Total capital assets, being depreciated, net	<u>12,202,909</u>	<u>580,438</u>	<u>-</u>	<u>12,783,347</u>
Governmental activities capital assets, net	<u>\$ 12,820,572</u>	<u>\$ 908,459</u>	<u>\$ (385,061)</u>	<u>\$ 13,343,970</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	<u>5,912,442</u>	<u>13,435,344</u>	<u>-</u>	<u>19,347,786</u>
Total capital assets, not being depreciated	<u>5,948,442</u>	<u>13,435,344</u>	<u>-</u>	<u>19,383,786</u>
<i>Capital assets, being depreciated:</i>				
Buildings	6,057,681	-	-	6,057,681
Improvements	21,835	-	-	21,835
Equipment	249,630	8,000	-	257,630
Vehicles	1,284,192	92,900	(213,935)	1,163,157
Infrastructure	<u>14,675,037</u>	<u>150,365</u>	<u>-</u>	<u>14,825,402</u>
Total capital assets, being depreciated	<u>22,288,375</u>	<u>251,265</u>	<u>(213,935)</u>	<u>22,325,705</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(5,112,438)	(56,120)	-	(5,168,558)
Improvements	(473)	(437)	-	(910)
Equipment	(91,703)	(18,087)	-	(109,790)
Vehicles	(970,938)	(89,269)	213,707	(846,500)
Infrastructure	<u>(524,963)</u>	<u>(301,860)</u>	<u>-</u>	<u>(826,823)</u>
Total accumulated depreciation	<u>(6,700,515)</u>	<u>(465,773)</u>	<u>213,707</u>	<u>(6,952,581)</u>
Total capital assets, being depreciated, net	<u>15,587,860</u>	<u>(214,508)</u>	<u>(228)</u>	<u>15,373,124</u>
Business-type activities capital assets, net	<u>\$ 21,536,302</u>	<u>\$ 13,220,836</u>	<u>\$ (228)</u>	<u>\$ 34,756,910</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 160,837
Security of persons and property	107,778
Transportation	454,678
Public health and welfare	1,292
Leisure time activity	<u>91,745</u>
Total depreciation expense - governmental activities	<u>\$ 816,330</u>

Business-type activities

Water	\$ 319,686
Sewer	108,653
Refuse	<u>37,434</u>
Total depreciation expense - business-type activities	<u>\$ 465,773</u>

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Sick leave - Sick leave is according to contracts. Members of AFSCME, Police and Non-Union personal are credited with 120 hours at the beginning of each year and fire department personal are credited with 168 hours. There is no limit to the amount an employee can accumulate during their service time with the City. Upon termination, an employee with less than 10 years is entitled to 25% of accumulated sick hours. An employee with 10 years or more is entitled to 50% of accumulated sick hours. For AFSCME union members and non-union personnel there is a limit of 2,000 hours of accumulated sick hours that can be paid, police and fire personnel have no limit that can be paid. The total obligation for sick leave accrual for the City as a whole as of December 31, 2006 was \$1,610,863.

B. Early Retirement Incentive Plan

The City has approved an early retirement incentive plan ("ERIP") for all city employees. The City will purchase, from OPERS, additional service credit for those employees who elect to participate in the plan. Participation was open to employees who were at least 50 years old, qualified for retirement with the years purchased by the City, and agreed to retire at the end of fiscal year 2006. The enrollment period for the plan was between July 25, 2006 and September 30, 2006. The credit could not exceed the lesser of three years or one-fifth of each member's total Ohio service. The City did not limit the number of employees participating in the plan in any one year. The total liability for the plan remaining at December 31, 2006 was \$312,308. The liability is recorded in the respective funds from which the employee was paid as part of compensated absences payable.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - LEASES

A. Governmental Capital Leases - Lessee Disclosure

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

General capital assets consisting of equipment have been capitalized in the statement of net assets in the amount of \$35,527. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$18,521, leaving a current book value of \$17,006. A corresponding liability was recorded in the statement of net assets. Principal payments in fiscal year 2006 totaled \$7,640 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2006:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2007	\$ 7,617
2008	6,474
2009	1,825
2010	<u>913</u>
Total	16,829
Less: amount representing interest	<u>(1,679)</u>
Present value of net minimum lease payments	<u>\$ 15,150</u>

B. Proprietary Capital Leases - Lessee Disclosure

In a prior year, capital assets consisting of backhoe equipment have been capitalized in the Sewer enterprise fund. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. Capital assets consisting of backhoe equipment have been capitalized in the amount of the \$52,131. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$11,005, leaving a current book value of \$41,126. A corresponding liability was recorded in the Sewer enterprise fund. Principal payments in fiscal year 2006 totaled \$9,374.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - LEASES - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2006:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2007	\$ 10,665
2008	<u>10,665</u>
Total	21,330
Less: amount representing interest	<u>(1,209)</u>
Present value of net minimum lease payments	<u>\$ 20,121</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Loans:</u>						
State Rt. 22 (ODOT)	0%	\$ 344,931	\$ -	\$ (150,000)	\$ 194,931	\$ 75,000
State Rt. 22 (ODOT)	0%	91,215	-	(37,752)	53,463	18,876
Sunset Blvd (ODOT)	3.00%	926,525	-	(33,522)	893,003	34,623
Phone System Loan	4.38%	59,292	-	(14,877)	44,415	15,539
Electrical Truck Loan	3.75%	79,764	-	(20,573)	59,191	21,367
Route 43 Project	4.69%	<u>574,521</u>	-	<u>(59,984)</u>	<u>514,537</u>	<u>37,671</u>
Total loans		<u>2,076,248</u>	<u>-</u>	<u>(316,708)</u>	<u>1,759,540</u>	<u>203,076</u>
<u>Other long-term liabilities:</u>						
Police and Fire pension liability		2,151,272	-	(37,697)	2,113,575	39,316
Capital lease obligation		22,790	-	(7,640)	15,150	6,641
Compensated absences		<u>1,424,019</u>	<u>223,934</u>	<u>(153,840)</u>	<u>1,494,113</u>	<u>123,191</u>
Total other long-term liabilities		<u>3,598,081</u>	<u>223,934</u>	<u>(199,177)</u>	<u>3,622,838</u>	<u>169,148</u>
Total governmental activities long-term liabilities		<u>\$ 5,674,329</u>	<u>\$ 223,934</u>	<u>\$ (515,885)</u>	<u>\$ 5,382,378</u>	<u>\$ 372,224</u>

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Equipment Loans - During 2004, the City issued loans for the purchase of new equipment. The City purchased a phone system in the amount of \$77,000 to be paid from the general fund. Principal payments of \$14,877 were made during 2006. The City also purchased an electrical service truck in the amount of \$106,000. Proceeds and payments are recorded in the Street Maintenance and Repair and State Highway special revenue funds. Principal payments of \$20,573 were made during 2006. Both loans mature in 2009.

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

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

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

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

Year	ODOT - Loans			Route 43 Loan		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 128,499	\$ 26,532	\$ 155,031	\$ 37,671	\$ 17,700	\$ 55,371
2008	129,631	25,485	155,116	52,350	21,478	73,828
2009	97,570	24,404	121,974	54,849	18,980	73,829
2010	38,137	23,287	61,424	57,467	13,362	70,829
2011	39,386	22,134	61,520	60,210	13,619	73,829
2012 - 2016	217,155	92,002	309,157	251,990	27,192	279,182
2017 - 2021	255,135	56,940	312,075	-	-	-
2022 - 2025	235,884	16,222	252,106	-	-	-
Totals	<u>\$ 1,141,397</u>	<u>\$ 287,006</u>	<u>\$ 1,428,403</u>	<u>\$ 514,537</u>	<u>\$ 112,331</u>	<u>\$ 626,868</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

<u>Year</u>	<u>Equipment Loans</u>			<u>Police & Fire Pension</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 36,906	\$ 3,639	\$ 40,545	\$ 39,316	\$ 89,414	\$ 128,730
2008	38,417	2,128	40,545	41,004	87,725	128,729
2009	28,283	551	28,834	42,767	85,964	128,731
2010	-	-	-	44,603	84,127	128,730
2011	-	-	-	46,518	82,212	128,730
2012 - 2016	-	-	-	264,337	379,311	643,648
2017 - 2021	-	-	-	326,195	317,454	643,649
2022 - 2026	-	-	-	402,531	241,119	643,650
2027 - 2031	-	-	-	496,728	147,119	643,847
2032 - 2035	-	-	-	409,576	35,187	444,763
Totals	<u>\$ 103,606</u>	<u>\$ 6,318</u>	<u>\$ 109,924</u>	<u>\$ 2,113,575</u>	<u>\$ 1,549,632</u>	<u>\$ 3,663,207</u>

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CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2006, the following changes occurred in the business-type activities long-term obligations:

	Interest Rate	Balance 12/31/05	Additions	Retirements	Balance 12/31/06	Amount Due in One Year
<u>OWDA loans:</u>						
Sewer - OWDA #3495	3.20%	\$ 310,018	\$ -	\$ (295,258)	\$ 14,760	\$ 14,760
Sewer - OWDA #3868	3.53%	210,567	-	(14,427)	196,140	14,941
Water - OWDA #3441	3.90%	7,111,358	-	(320,323)	6,791,035	332,937
Water - OWDA #3459	3.20%	977,985	-	(357,520)	620,465	369,052
Water - OWDA #3686	3.95%	3,681,991	-	(140,831)	3,541,160	146,449
Water - OWDA #3734	3.20%	622,262	-	(306,676)	315,586	315,586
Water - OWDA #4427	3.25%	-	13,325,199	-	13,325,199	-
Total OWDA loans		<u>12,914,181</u>	<u>13,325,199</u>	<u>(1,435,035)</u>	<u>24,804,345</u>	<u>1,193,725</u>
<u>OPWC loans:</u>						
Sewer - OPWC #CN28D	0.00%	207,135	-	(23,015)	184,120	23,015
Water - OPWC #CN523	0.00%	58,724	-	(5,872)	52,852	5,872
Water - OPWC #CN729	0.00%	69,670	-	(6,058)	63,612	6,058
Water - OPWC #CN038	0.00%	245,677	-	(14,889)	230,788	14,889
Total OPWC loans		<u>581,206</u>	<u>-</u>	<u>(49,834)</u>	<u>531,372</u>	<u>49,834</u>
<u>Loan:</u>						
Sewer Improvement	4.60%	162,734	-	(16,918)	145,816	10,625
Total Loan		<u>162,734</u>	<u>-</u>	<u>(16,918)</u>	<u>145,816</u>	<u>10,625</u>
<u>General obligation notes:</u>						
Refuse - garbage packer	3.71%	42,334	-	(26,077)	16,257	16,257
Refuse - garbage packer - 2006	5.20%	-	119,000	-	119,000	21,421
Total general obligation notes		<u>42,334</u>	<u>119,000</u>	<u>(26,077)</u>	<u>135,257</u>	<u>37,678</u>
<u>Bond anticipation note:</u>						
Sewer - permars run note - 2006	4.12%	-	652,000	-	652,000	-
Total bond anticipation note		<u>-</u>	<u>652,000</u>	<u>-</u>	<u>652,000</u>	<u>-</u>
<u>General obligation bonds:</u>						
Water Improvement Bonds	4.30%	1,055,000	-	(100,000)	955,000	105,000
Water Improvement Bonds	5.45%	1,059,000	-	(30,607)	1,028,393	32,275
Sewer Improvement Bonds	5.45%	1,300,000	-	(37,409)	1,262,591	39,448
Total general obligations bonds		<u>3,414,000</u>	<u>-</u>	<u>(168,016)</u>	<u>3,245,984</u>	<u>176,723</u>
<u>Other long-term liabilities:</u>						
Capital lease obligation	4.75%	29,495	-	(9,374)	20,121	9,825
Compensated absences	n/a	587,918	29,029	(187,889)	429,058	129,525
Landfill closure/postclosure	n/a	5,285,723	-	(154,698)	5,131,025	-
Total other long-term liabilities		<u>5,903,136</u>	<u>29,029</u>	<u>(351,961)</u>	<u>5,580,204</u>	<u>139,350</u>
Total business-type long-term obligations		<u>\$ 23,017,591</u>	<u>\$ 14,125,228</u>	<u>\$ (2,047,841)</u>	<u>\$ 35,094,978</u>	<u>\$ 1,607,935</u>

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

OWDA Loans - The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2006, the City has outstanding borrowings of \$24,804,345. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down. The Water Storage Improvement (#3686) and Transmission Mains and Raw Water Pumping Facilities (#3441) projects are the only two loans which have been closed out as of December 31, 2006. Loans which are still open with a balance of \$1,146,951 have been included in the debt schedule of payments, however, the schedule does not agree with the loans outstanding since the loans are still open and the entire balance of the loan has not yet been disbursed. For these loans, the schedule of debt payments reflects \$1,696,251 in authorized amounts that had not been disbursed as of December 31, 2006. Future annual debt service principal and interest requirements for the remaining open loans, which have a total balance of \$13,325,199 at December 31, 2006, are not available.

OPWC Loans - During 2003, the City was granted a \$230,150 loan from the Ohio Public Works Commission (OPWC). The purpose of the loan is to finance and reimburse the costs of replacing a wastewater treatment laboratory facility to meet Ohio Environmental Protection Agency requirements. The loan is being paid from the Sewer fund over 10 years, with semi-annual payments of \$11,507. As of December 31, 2006, the loan has a balance of \$184,120. In prior years the City received loans from OPWC to fund improvements of the water plant. The loans granted totaled \$536,402 and payments are made from the water fund in semi-annual payments over 20 years. The City made principal payments of \$26,819 on the water improvement OPWC loan. There is no interest on these loans.

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

General Obligation Notes - During a prior year the City issued a note in the Refuse fund to finance the purchase of a garbage packer. This note matures in 2007 and has an interest rate of 3.71%. During 2006, the City issued a note for \$119,000 in the Refuse fund to finance the purchase of another garbage packer. This note matures in 2011 and has an interest rate of 5.20%.

Bond Anticipation Note - The City issued a note in the Sewer fund in anticipation of the issuance of bonds to pay costs of the Permars Run Relief Sewer Design Project totaling \$652,000. Interest on the note will be paid on June 8th and December 8th 2007 and 2008. The note bears an interest rate of 4.12% and is due on December 8, 2008.

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

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

Capital Lease Obligation - See Note 10.B. for lease details.

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Year	OPWC Loans			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 49,834	\$ -	\$ 49,834	\$ 1,484,729	\$ 487,730	\$ 1,972,459
2008	49,834	-	49,834	1,371,474	436,296	1,807,770
2009	49,834	-	49,834	695,157	394,137	1,089,294
2010	49,834	-	49,834	555,118	370,507	925,625
2011	49,834	-	49,834	576,999	348,624	925,623
2012 - 2016	197,272	-	197,272	3,244,646	1,383,473	4,628,119
2017 - 2021	77,477	-	77,477	3,936,647	691,474	4,628,121
2022 - 2024	7,453	-	7,453	1,310,627	59,498	1,370,125
Totals	<u>\$ 531,372</u>	<u>\$ -</u>	<u>\$ 531,372</u>	<u>\$ 13,175,397</u>	<u>\$ 4,171,739</u>	<u>\$ 17,347,136</u>

Year	General Obligation Bonds			Sewer Loan		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 176,723	\$ 165,100	\$ 341,823	\$ 10,625	\$ 4,993	\$ 15,618
2008	180,632	156,744	337,376	14,765	6,058	20,823
2009	189,754	147,958	337,712	15,470	5,353	20,823
2010	199,100	138,839	337,939	16,209	4,615	20,824
2011	208,684	129,158	337,842	16,982	3,841	20,823
2012 - 2016	921,406	492,523	1,413,929	71,765	7,001	78,766
2017 - 2021	679,843	303,063	982,906	-	-	-
2022 - 2025	689,842	96,483	786,325	-	-	-
Totals	<u>\$ 3,245,984</u>	<u>\$ 1,629,868</u>	<u>\$ 4,875,852</u>	<u>\$ 145,816</u>	<u>\$ 31,861</u>	<u>\$ 177,677</u>

Year	Refuse Garbage Packer Notes			Sewer Permars Note		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 37,678	\$ 6,194	\$ 43,872	\$ -	\$ 26,862	\$ 26,862
2008	22,550	4,785	27,335	652,000	25,183	677,183
2009	23,737	3,597	27,334	-	-	-
2010	24,988	2,346	27,334	-	-	-
2011	26,304	1,030	27,334	-	-	-
Totals	<u>\$ 135,257</u>	<u>\$ 17,952</u>	<u>\$ 153,209</u>	<u>\$ 652,000</u>	<u>\$ 52,045</u>	<u>\$ 704,045</u>

C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2006, the City's total debt margin was \$25,692,712, and the unvoted debt margin was \$13,594,986 both amounts include available funds of \$287,488.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

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

B. Health Insurance

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

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2006, is estimated by the third party administrator at \$59,263. The changes in the claims liability for 2006 and 2005 were as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 98,359	\$ 1,541,961	\$ (1,581,057)	\$ 59,263
2005	166,172	1,898,500	(1,966,313)	98,359

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

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

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

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

NOTE 13 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member- directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$787,756, \$913,407 and \$809,299, respectively; 90.22% has been contributed for 2006 and 100% has been contributed for 2005 and 2004. The unpaid portion for 2006 of \$77,847 is recorded as a liability within the respective funds. Contributions to the member-directed plan for 2006 were \$4,758 made by the City and \$3,126 made by plan members.

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - PENSION PLANS – (Continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to the OP&F for police and firefighters were \$944,471, \$948,340 and \$891,181 for the years ended December 31, 2006, 2005, and 2004, respectively. The full amount has been contributed for 2005 and 2004. 79.65% has been contributed for police and firefighters for 2006 with the remainder of \$218,361 being reported as a liability in the respective funds.

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

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

CITY OF STEUBENVILLE, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - POSTRETIREMENT BENEFIT PLANS – (Continued)

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$261,482. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$208,092 for police and \$177,340 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance	
	<u>General</u>
Budget basis	\$(1,610,728)
Net adjustment for revenue accruals	(1,790,922)
Net adjustment for expenditure accruals	1,652,484
Net adjustment for other sources/uses	(10,281)
Adjustment for encumbrances	<u>1,194,118</u>
GAAP basis	<u>\$ (565,329)</u>

NOTE 16 - LANDFILL CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its municipal landfill site and to perform certain maintenance and monitoring functions at the closed landfill site for thirty years after closure. The landfill is no longer being used; however, the final cover as required by state and federal laws has not been placed on the landfill. The first phase of placing the final cover on the landfill began in 2006. The estimated liability for the landfill is \$2,792,750 for closure costs and \$2,692,492 for the post closure care costs for a total liability of \$5,485,242. The estimated cost of landfill closure and postclosure care expenses is based on the amount that would be paid if all materials and services required to monitor and maintain the closed landfill were acquired as of December 31, 2004. However, the actual costs of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. At December 31, 2005 the landfill outstanding balance was \$5,285,723. Expenses in the amount of \$154,698 were made during 2006, which decreased the estimated liability to \$5,131,025.

CITY OF STEUBENVILLE, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 17 - WATER AND WASTEWATER COMPLIANCE

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

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

The City has been named in various lawsuits, however, according to the City's legal counsel pending litigation will not have a material effect, if any, on the financial condition of the City.

NOTE 20 – CONTRACTUAL COMMITMENTS

As of December 31, 2006, the City had contractual commitments for the following projects:

	<u>Contractual Commitment</u>	<u>Expended</u>	<u>Balance 12/31/2006</u>
Shelly & Sands - Street paving project	\$ 449,126	\$ 412,355	\$ 36,771
Ohio West Virginia Excavating - S. 4th Street Rehabilitation project	430,751	173,545	257,206
Steubenville Truck Center - Garbage packer	119,000	-	119,000

NOTE 21 – SIGNIFICANT SUBSEQUENT EVENT

In May 2007, the City sold a parcel of land and the golf course for a total of \$2,688,077. The book value of these capital assets which were included in the City's capital assets at December 31, 2006, was \$30,010.



July 31, 2007

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Steubenville (the "City") as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated July 31, 2007.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs and responses as items 2006-001 through 2006-003.

We also noted certain matters that we reported to management of the City in a separate letter dated July 31, 2007.

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

Hea & Associates, Inc.



July 31, 2007

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

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

Compliance

We have audited the compliance of the City of Steubenville (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in item 2006-004 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding subrecipient monitoring that are applicable to its Home Investment Partnership Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2006-005 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 2006-005 to be a material weakness.

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

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

Rea & Associates, Inc.

**CITY OF STEUBENVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR/PASS THROUGH GRANTOR - PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT/ PASS-THROUGH ENTITY NUMBER	DISBURSEMENTS
<u>U.S. Department of Housing and Urban Development</u>			
Direct Award:			
Community Development Block Grant Entitlement Grants	14.218	B04-MC-39-0020	\$ 534,051
Community Development Block Grant Entitlement Grants	14.218	B05-MC-39-0020	217,693
Total Entitlement Grants			<u>751,744</u>
Passed-Through State Department of Development HOME Investment Partnership Program (CHIP)	14.239	A-C-02-296-2	<u>187,117</u>
Total U.S. Department of Housing and Urban Development			938,861
<u>U.S. Department of Agriculture:</u>			
Passed-Through State Department of Education:			
Summer Food Program	10.559		<u>135,424</u>
Total U.S. Department of Agriculture			135,424
<u>U.S. Department of Transportation:</u>			
Passed-Through Ohio Department of Transportation:			
Highway Planning and Construction	20.205	JEF SR0043 2.80	<u>73,942</u>
Total U.S. Department of Transportation			73,942
<u>U.S. Department of Homeland Security</u>			
Passed-Through Ohio Emergency Management Agency			
Public Assistance Grant	97.036	FEMA-1580-DR-081-74608	79,425
Direct Award:			
Assistance to Firefighters Grant Program	97.044	EMW-2005-FG-16670	<u>693,007</u>
Total U.S. Department of Homeland Security			<u>772,432</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,920,659</u></u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: MATCHING REQUIREMENTS

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

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other internal control deficiencies reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d) (1) (iv)	Were there any internal control deficiencies reported for major programs which were not considered to be material?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion CFDA # 14.239 Home Investment Partnership Program CFDA # 97.044 Assistance to Firefighters Grant CFDA # 10.559 Summer Food Service Program for Children	Qualified Unqualified Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	Yes
(d) (1) (vii)	Major Programs (list): Home Investment Partnership Program Assistance to Firefighters Grant Summer Food Service Program for Children	CFDA # 14.239 97.044 10.559
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Non-Compliance Citations

Finding Number	2006-001
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Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which the fund is established. The following funds had significant negative fund balances during fiscal year 2006:

.7% CIT Equipment Improvement Fund (06): November - \$47,497

Summer Food Program Fund (28): May - \$4,680; June - \$18,363; August - \$6,203; September - \$14,568

Sewer Fund (51): January - \$1,841,117; February - \$1,501,262; March - \$1,568,637; April - \$1,429,766; May - \$1,218,003; June - \$1,294,494; July - \$1,111,698; August - \$881,169; September - \$708,844; October - \$617,581; November - \$399,995; December - \$974,333

Wastewater – Capital Projects Fund (82): August - \$3,999; September - \$27,309; October - \$27,309; November - \$70,925

City's Response: See Corrective Action Plan.

Finding Number	2006-002
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Ohio Rev. Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void.

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

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Finding Number	2006-002 (continued)
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1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

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

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

The City did not properly certify or record the amount against the applicable appropriation accounts for 24 of 74 (32%) of tested expenditures in 2006. The City did not utilize the certification exceptions described above for those expenditures lacking prior certification.

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

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

City’s Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Finding Number	2006-003
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Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated. We tested the month of September 2006 to determine if all amounts at the legal level of control, i.e. department level, were properly appropriated. We noted several instances where the expenditures plus encumbrances exceeded the appropriation at that time. The following departments had negative unencumbered balances at September 30, 2006:

Recreation Golf Department (23)	\$98,759
Community Celebrations Department (25)	1,160
Building Department (67)	6,355
.7% CIT Street Improvement Department (37)	365,806
.7% CIT Equipment Improvement Department (38)	54,012
Fire Damage Removal Department (62)	9,088
Law Enforcement Trust Department (005)	9,401
Law Enforcement Trust Department (031)	6,323
Safety Fund Department (011)	21,590
JAG Justice Admin Department (013)	13,175
Landfill Closure Department (50)	1,804

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

We recommend the City not allow expenses and encumbrances to exceed the amount appropriated. Council should be monitoring the budget verses actual numbers monthly and amending the appropriations measures as necessary.

City's Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2006-004
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Non-compliance

Program Information:

CFDA #14.239 HOME Investment Partnership Program
US Department of Housing and Urban Development
Passed through Ohio Department of Development

Criteria:

24 CFR Sec. 92.504(c)2(iv) Other program requirements indicates an agreement between the City and subrecipient must require the subrecipient to carry out each activity in compliance with all Federal laws and regulations described in subpart H of this part, except that the subrecipient does not assume the participating jurisdiction's responsibilities for environmental review under Sec. 92.352 and the intergovernmental review process in Sec. 92.357 does not apply. Also, the agreement between the City and the JCCAC indicates on-site inspections for housing quality should be done prior to any payment for rental assistance covered by this grant. In order to ascertain compliance by the subrecipient, the City should be reviewing files, determining if the proper housing quality inspections were done, and determining if the JCCAC was obtaining annual audits, what the outcomes of the A-133 audits were and determining if any follow-up was warranted.

Condition:

The City does not have a process in place to monitor the sub-recipient for the tenant-based rental assistance program which includes making sure federal requirements are known and adhered to and documentation of the monitoring process.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Finding Number

2006-004 (continued)

Context:

The City contracted with the Jefferson County Community Action Council (JCCAC) to operate the tenant-based rental assistance portion of the grant. The total amount of grant dollars allocated to tenant-based rental assistance was \$362,572 over a period from September 1, 2002 through April 30, 2006. The Director of Community Development indicated he did periodically review files for eligibility and place of residence but did not maintain any documentation of those reviews. This was the only type of monitoring the City performed. We also reviewed the contract and noted the award identification did not include the CFDA title and number. We tested 19 of 298 participant files and noted the following:

- 3 of 19 did not have income verification,
- 8 of 19 were not properly billed to the City,
- 10 of 19 did not have a completed rental assistance calculation,
- 16 of 19 did not have a certification of the rental amount,
- 14 of 19 did not have an on-site housing inspection prior to the first assistance payment,
- 13 of 19 had a different amount on the Tenant-Based Rental Assistance Final Report than the grant or billed amounts and
- 3 of 19 had an incorrect social security number and/or demographic information on the Tenant-Based Rental Assistance Final Report than in the file.

We also noted the total CHIP assistance amount on the Tenant-Based Rental Assistance Final Report was \$373,801 while the grant total for tenant-based rental assistance was \$362,572 on the Final Performance Report.

Effect:

Because of the lack of subrecipient monitoring, very few housing inspections, only 5 of 19 cases reviewed, were done prior to disbursement of rental payments to landlords. The City also would have determined the JCCAC did not have an adequate accounting system to identify City of Steubenville grant funding from other funding sources. Also, reconciliations of billings to costs in the JCCAC accounting system were not being done. This may have led to more in-depth review of the billing statements prepared by JCCAC. These statements were the basis for draw down requests related to the tenant-based rental assistance portion of the grant.

Recommendation:

We recommend the City establish a subrecipient monitoring process that could include monthly/quarterly file monitoring, monthly/quarterly meetings with the subrecipient to discuss grant progress, accounting issues, or any other areas that may need clarification or follow-up, accounting reconciliations for the grant prepared by the subrecipient and in-depth monitoring of the billings for rental assistance. The JCCAC has now established a department number for the City's grant and a printout of the accounting records for that department could be reviewed with the billing. Any adjustments to the billing should be made to the JCCAC's records as well. The process should include guidelines for documentation of the monitoring. This could include spreadsheets for each file review, minutes of meetings held, memos for follow-up of adjustments, and any other documentation the City may feel necessary.

City's Response: See Corrective Action Plan.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Finding Number	2006-005
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Material Weakness

Program Information:

CFDA #14.239 HOME Investment Partnership Program
US Department of Housing and Urban Development
Passed through Ohio Department of Development

Criteria:

OBM Circular A-87 establishes principles and standards for determining allowable direct and indirect for Federal awards. To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

- a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
- b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
- c) Be authorized or not prohibited under State or local laws or regulations.
- d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
- e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- f) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87. A-87 only requires GAAP to be used for the determination of certain items of cost. If the entity does not charge those items of costs, GAAP is not required by A-87, but may be required by the terms of the federal awards. For example, GAAP is required when accruing costs cost employees' paid leave or when charging rental costs for lease that meet the definition of capital lease under GAAP. When uncertain about a particular item of costs, review A-87, attachment B. (A-87, paragraph B.9; Attachment B, sections 11.d, e, f, and g, and 38.d).
- h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
- i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
- j) Be adequately documented.

A cost is allowable for Federal reimbursement only to the extent of benefits received by Federal awards and its conformance with the general policies and principles stated in A-87, Attachment A.

CITY OF STEUBENVILLE
JEFFERSON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
DECEMBER 31, 2006

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

Finding Number

2006-005 (continued)

Condition:

The City does not have a process in place to review the accuracy of the billings from the Jefferson County Community Action Council (JCCAC) for the tenant-based rental assistance program. This can lead to payments for which costs not actually related to the program i.e. they are not necessary for the program and are not in accordance with the grant. Double billings would indicate the JCCAC, although sending a detailed bill, has not properly recorded the activity in their records.

Context:

We tested 19 of 298 participant files and noted 8 of the files (42%) indicated the City was over-billed for rental activity in the amount of \$3,936. We also performed a review of the billings from JCCAC to the City. The invoices were for the second part of the grant and were invoices TBRA-02 through TBRA -11. The total of these invoices was \$253,594 out of a total for assistance of \$362,572 (70%). In this testing double billings amounted to \$2,498 (this testing did not include any of the amounts included in the file testing).

Questioned Costs:

The City was over-billed a total of \$6,434 with an additional projected over-billing of \$34,010 (based on the file review testing).

Effect:

Because the City does not have a process in place to review the accuracy of the invoices, the City is being billed for some assistance twice and in one case the amount paid by the JCCAC is not the amount billed to the City. The amounts double billed or billed incorrectly indicate JCCAC is being reimbursed in excess of benefits received by the participants.

Recommendation:

We recommend the City review the invoices more closely looking for duplicate names, social security numbers and months of billing. We also recommend additional documentation be provided by JCCAC with the billing. This information could include a reconciliation of the JCCAC's records for the grant to the amount billed. Billings should be done monthly, i.e. all activity for the month should be included on one bill. At the current time the City may receive up to three bills for the same month's activity which could lead to confusion with regard to who was billed for and on which invoice. Discrepancies noted on the billings should be addressed and corrected before submission to ODOD with a draw down request.

City's Response: See Corrective Action Plan.

**CITY OF STEUBENVILLE
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Ohio Revised Code Section 5705.10, various City funds had negative fund balances.	No	Re-issued as Finding 2006- 001
2005-002	Ohio Revised Code Section 5705.36, the City failed to send information to the County Auditor for amended certificates of estimated resources.	Yes	
2005-003	Ohio Revised Code Section 5705.40, the City did not submit appropriation amendments to the County Auditor.	Yes	
2005-004	Ohio Revised Code Section 5705.41(D), failure to properly certify expenditures.	No	Re-issued as Finding 2006-002
2005-005	Ohio Admin Code Section 117-2-01(A), City had not established procedures to determine if health insurance claims and data processing services are accurately administered in accordance with contract.	Yes	
2005-006	Summer Food Program meal counts and requests for reimbursements could not be substantiated by the records maintained by the program.	Yes	
2005-007	The City's process for recording contractor direct payments was not fully effective in capturing all transactions.	Yes	



City of Steubenville

Finance Office

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Fax: 740.283.6165 • Website: www.cityofsteubenville.us • Email: finance@cityofsteubenville.us

CORRECTIVE ACTION PLAN IN RESPONSE TO THE 2006 AUDIT FINDINGS

2006-001 Ohio Rev. Code Section 5705.10

The .7% CIT Equipment Improvement Fund (06) showed a deficit in November of 2006 due to a reclassification of a federal grant expense.

The Summer Food Program operated at a deficit because of timing issues over several months during the summer. This grant is a reimbursement grant.

The Sewage Fund (51) had a negative fund balance of \$974,333 at December 31, 2006. In 2005 a rate increase went in effect non-only to cover operating expenditures and debt service, but to also gradually climb out of the deficit over a five (5) year period.

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

2006-002 Ohio Rev. Code Section 5705.41 (D)

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

2006-003 Ohio Administrative Code Section 5705.41 (B)

The City of Steubenville passed its permanent budget in March of 2006 and its final budget passed in December of 2006. Throughout the year, some substantial increases to the budgeted expenditures occurred. Some examples were: the decision to continue operations at the golf course, local match to various grants, additional street projects, and additional expenditures offset by increased revenue. In future years the City plans to amend the budget mid year in order to make necessary adjustments.



City of Steubenville

Finance Office

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2006-04 Non-Compliance in Program CFDA # 14.239 HOME Investment Partnership Program

2006-05 Material Weakness in Program CFDA # 14.239 HOME Investment Partnership Program

The City of Steubenville Community Development and Planning office is currently working on a sub recipient monitoring policy detailing a specific list of monitoring activities for the Jefferson County Community Action Council, Inc. regarding Tenant Based Rental Assistance (TBRA).

Michael J. Marshall
Finance Director
City of Steubenville

7.30.07

Date



Mary Taylor, CPA
Auditor of State

CITY OF STEUBENVILLE

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 4, 2007**