

CITY OF ZANESVILLE
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Mary Taylor, CPA
Auditor of State

The Honorable Mayor and Members of City Council
City of Zanesville
401 Market Street
Zanesville, Ohio 43701

We have reviewed the *Independent Auditors' Report* of the City of Zanesville, Muskingum County, prepared by Wolfe, Wilson & Phillips, 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 Zanesville is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 27, 2007

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**CITY OF ZANESVILLE
MUSKINGUM COUNTY**

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**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

City of Zanesville
Muskingum County
401 Market Street
Zanesville, Ohio 43701

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Zanesville, Muskingum County 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the South East Area Transit Authority, which is included as a discretely presented component unit in the City of Zanesville's basic financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the South East Area Transit Authority is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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, if any, 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, based on our report and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Zanesville, Muskingum County as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Police Fund for the year then ended in conformity generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2007, on our consideration of City of Zanesville's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to opine of the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards expenditures present additional information and is required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 25, 2007

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006

The discussion and analysis of the City of Zanesville's financial performance provides an overview of the City's financial performance as a whole for the year ended December 31, 2006.

Financial Highlights

Key financial highlights for 2006 follow:

- In total, net assets increased \$7,381,827. Net assets of governmental activities increased \$1,695,713. Net assets of business-type activities increased \$5,686,114.
- Governmental Activities general revenues accounted for \$17,374,574 in revenue or 74 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, and capital grants accounted for \$6,243,488 or 26 percent of total revenues of \$23,618,062. Business-type activities general revenues accounted for \$41,055 in revenue or less than 1 percent of all business-type activities revenues. Program specific revenues accounted for \$13,380,671 or more than 99 percent of total revenues of \$13,421,726.
- The City had \$21,922,349 in expenses related to governmental activities; \$6,243,488 of these expenses was offset by program specific charges for services, grants or contributions. The City had \$7,735,612 in expenses related to business-type activities; the entire amount was offset by program specific charges for services, grants or contributions.

Using this Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and ask 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 and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities - Most of the City's services are reported here including police, fire, administration, and all departments with the exception of our Sewer and Water Funds.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Business-Type Activities - Sewer and water services have charges based upon the amount of usage. The City charges fees to recoup the cost of the entire operations of our Sewer and Water Treatment Plants as well as all capital expenses associated with the facilities.

Reporting the City's Most Significant Funds

Fund Financial Statements

The basic governmental fund financial statements begin on page 12. Fund financial reports provide detailed information about the City's major funds. Based upon restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Zanesville, our major funds are the General, Police, Capital Projects, Sewer and Water Funds.

Governmental Funds Most of the City's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled as part of the financial statements.

Proprietary Funds When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds also use the accrual basis of accounting.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements, prepared and organized so the reader can understand the City's financial position.

The Statement of Net Assets (Table 1) and the Statement of Changes in Net Assets (Table 2) provide information about the activities of the whole City. In these statements, the City is divided into two types of activities:

- **Governmental Activities**—Most of the City's programs and services are reported here. These services, listed in Table 3, are primarily funded by income taxes, property taxes and intergovernmental revenues.
- **Business-Type Activities**—These services are provided on a charge for service basis and are intended to recover all or most of the cost of the service provided. The City's sewer and water funds are reported here.

The financial statements proceed to provide a more detailed look at the City's financial condition.

Government-Wide Financial Analysis

Table 1 provides a summary of the City's net assets for 2006 compared to 2005. Table 2 reflects the changes in net assets for the 2006 compared to 2005.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Table 1
Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005*	2006	2005*	2006	2005*
Assets						
Current and Other Assets	\$14,730,985	\$13,065,875	\$8,516,697	\$7,855,482	\$23,247,682	\$20,921,357
Capital Assets	16,327,252	12,768,844	27,981,982	21,752,572	44,309,234	34,521,416
Total Assets	\$31,058,237	\$25,834,719	\$36,498,679	\$29,608,054	\$67,556,916	\$55,442,773
Liabilities						
Long-Term Liabilities	\$8,353,637	\$4,683,874	\$13,958,777	\$14,434,441	\$22,312,414	\$19,118,315
Other Liabilities	3,356,048	3,498,006	1,622,497	646,932	4,978,545	4,144,938
Total Liabilities	\$11,709,685	\$8,181,880	\$15,581,274	\$15,081,373	\$27,290,959	\$23,263,253
Net Assets						
Invested in Capital Assets						
Net of Debt	\$9,600,828	\$9,809,678	\$14,375,358	\$8,024,149	\$23,976,186	\$17,833,827
Restricted	5,177,829	4,064,200	139,266	139,266	5,317,095	4,203,466
Unrestricted (Deficit)	4,569,895	3,778,961	6,402,781	7,067,876	10,972,676	10,846,837
Total Net Assets	\$19,348,552	\$17,652,839	\$20,917,405	\$15,231,291	\$40,265,957	\$32,884,130

* As restated – see Note 3.

Total assets increased \$12,114,143 due largely to acquisition and construction of capital assets. See Note 9 for additional information regarding capital assets. Total liabilities increased \$4,027,706 due largely to the addition of debt for capital asset construction. See Note 15 for additional information regarding long-term liabilities.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Changes in Net Assets

	Governmental Activities 2006	Business Type Activities 2006	Governmental Activities 2005*	Business Type Activities 2005*
Revenues				
Program Revenues:				
Charges for Services	\$2,856,882	\$9,380,671	\$2,515,093	\$9,285,502
Operating Grants	2,768,444	0	1,258,479	0
Capital Grants	618,162	4,000,000	428,071	1,169,069
General Revenues:				
Property Taxes	1,317,562	0	1,361,547	0
Municipal Income Tax	12,080,965	0	11,845,450	0
Payments in Lieu of Taxes	25,842	0	0	0
Grants and Entitlements	2,984,167	0	2,775,773	0
Others	966,038	41,055	868,800	21,587
Total Revenues	23,618,062	13,421,726	21,053,213	10,476,158
Program Expenses:				
General Government	3,440,471	0	4,386,399	0
Security of Persons and Property	11,955,487	0	11,460,108	0
Public Health Services	1,891,821	0	1,697,343	0
Leisure Time Activities	1,394,819	0	1,288,229	0
Community Environment	1,177,759	0	1,238,217	0
Transportation	1,964,628	0	2,236,179	0
Intergovernmental	0	0	448,062	0
Interest and Fiscal Charges	97,364	0	121,422	0
Sewer	0	3,318,133	0	3,444,840
Water	0	4,417,479	0	3,767,224
Total Expenses	21,922,349	7,735,612	22,875,959	7,212,064
Change in Net Assets	1,695,713	5,686,114	(1,822,746)	3,264,094
Net Assets Beginning of Year	17,652,839	15,231,291	18,402,305	12,721,017
Net Assets End of Year	\$19,348,552	\$20,917,405	\$16,579,559	\$15,985,111

* Prior year amounts have not been adjusted for comparative purposes, see note 3 for restatement.

Governmental Activities

Total revenues of governmental activities in 2006 were \$23,618,062.

The largest single source of revenue to fund the City's governmental activities is the 1.7% income tax collected within the City. The general 1% portion of the tax was established in 1959 by Ordinance No. 59-86; \$7,355,538 was collected in 2006. In 1980, City Council passed Ordinance No. 80-62 (subsequently approved by voters) establishing a .5% tax devoted to the operation of the Police Department; \$3,478,216 was collected in 2006. In 1991, Ordinance No. 91-14 was passed by City Council (and approved by voters), establishing a .2% tax earmarked for the construction and operation of the city jail; \$1,247,211 was collected in 2006. Total income tax collections in 2005 were \$12,080,965.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Governmental Activities (continued)

Also, the City has entered into three Joint Economic Development District agreements (JEDDs) that allow it to collect income taxes in special districts in return for City participation in infrastructure improvements in the districts.

Other major sources of funds include transportation-related taxes, local government funds and property taxes. In total these revenues showed no significant growth from the prior year; this lack of growth has been a multi-year trend.

Table 3 shows the total cost of services for governmental activities and the net cost of services. The net cost of services represents the cost of services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	<u>Total Cost of Services 2006</u>	<u>Net Cost of Services 2006</u>	<u>Total Cost of Services 2005*</u>	<u>Net Cost of Services 2005*</u>
General Government	\$3,440,471	\$3,131,003	\$4,386,399	\$3,920,984
Security of Persons and Property	11,955,487	8,568,308	11,460,108	9,447,094
Public Health Services	1,891,821	1,282,803	1,697,343	1,365,272
Leisure Time Activities	1,394,819	1,129,816	1,288,229	1,122,950
Community Environment	1,177,759	864,435	1,238,217	1,009,619
Transportation	1,964,628	629,746	2,236,179	1,331,917
Intergovernmental	0	0	448,062	398,907
Interest and Fiscal Charges	97,364	72,750	121,422	77,573
Total Expenses	<u><u>\$21,922,349</u></u>	<u><u>\$15,678,861</u></u>	<u><u>\$22,875,959</u></u>	<u><u>\$18,674,316</u></u>

* Prior year amounts have not been adjusted for comparative purposes, see note 3 for restatement.

Total expenses of governmental activities in 2005 were \$21,922,349.

At \$11,955,487, or 55% of the total, expenses related to Security of Persons and Property, primarily police and fire operations, accounted for the largest single share of total governmental activities. This was followed by General Government activities at \$3,440,471, or 16% of the total.

Business-Type Activities

On its financial statements, the City's enterprise funds are the sewer and water funds. The major source of revenue for these funds is charges for services.

The increase in net assets for these funds is due primarily to an increase in capital contributions received in the sewer fund.

The City's Funds

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$22,824,629 and expenditures of \$25,728,860.

During 2006, the Water Fund had operating revenues of \$4,356,105 and operating expenses of \$4,248,901. The Sewer Fund had operating revenues of \$5,032,861 and operating expenses of \$2,887,809.

Budgetary Highlights

The City prepares an annual budget of revenues and appropriations for all funds effective the first day of its fiscal year on January 1. This version of the budget contains estimates of the amounts carried over in each fund from the previous year. Prior to April 1, the budget is revised to reflect the actual amounts carried over. Periodically through the year the budget is revised to reflect actual activity or changes in priority. Though some minor budgetary changes can be made administratively, the initial budget and most amendments must be passed by City Council.

The most significant budgeted fund is the General Fund. This fund supports many major activities such as the Fire Division, Building Code Enforcement, Parks and Recreation, and the Municipal Court. Additionally, large transfers are made from the General Fund to support other activities such as the Police, Community Development, Cemetery, Sanitation and Vehicle Maintenance Divisions, this amount totaled \$3,655,531 for 2006. On a cash basis, in 2006 the General Fund had a beginning balance of \$910,898, received \$12,107,473 in revenue and expended \$8,572,257.

Capital Assets and Debt Administration

The assets of the City are reported at historical cost, net of depreciation. Total capital assets net of depreciation at December 31, 2006 were \$16,327,252 for governmental activities and \$27,981,982 for business type activities. For additional information on capital assets, see Note 9 to the basic financial statements.

Debt

Total debt outstanding at December 31, 2006 for governmental activities was \$6,739,174, and for business type activities was \$13,606,624. For additional information on debt, see Note 15 to the basic financial statements.

Current Issues

Over the past 2 to 3 years the City has experienced low growth in revenues while costs, primarily employee-related, have increased. The national recession has had a local impact. Consequently, the City has relied more heavily than it would like on the strong fund balances built up from the good economic times of the mid- to late-1990s. Revenue from the City's JEDDs has also helped.

There are two projects of note:

- The Sewer Plant Upgrade—Phase 1 of this project is estimated to be \$11,000,000 and will be funded by targeted sewer rate increases (two 7-percent increases have already been implemented) and by a \$4,000,000 commitment from Muskingum County (which utilizes the plant). This project began in 2005.
- The SR146/SR60 Connector Road—This project, estimated to be \$5 to \$6 million, will connect two state routes while bypassing the infamously congested Maple Ave. within the City. It will be financed by a State Infrastructure Bank loan with Tax Increment Financing of development along the new road pledged to make debt service payments. The Connector Road was completed in August 2006.

Request for Information

This financial report is designed to provide a general overview of the City's finances and to show the City's accountability for the money it receives, spends and invests. Questions concerning any of the information provided in this report or requests for additional information should be directed to the City Auditor, City of Zanesville, 401 Market Street, Zanesville, OH 43701; (740) 455-0673.

City of Zanesville, Ohio
Statement of Net Assets
December 31, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,790,794	\$5,892,505	\$12,683,299	\$162,751
Cash and Cash Equivalents in Segregated Accounts	68,751	493,159	561,910	0
Accounts Receivable	1,097,598	1,159,394	2,256,992	69,246
Municipal Income Taxes Receivable	2,003,835	0	2,003,835	0
Intergovernmental Receivable	2,938,381	0	2,938,381	74,090
Materials and Supplies Inventory	175,324	650,376	825,700	29,912
Prepaid Items	91,656	36,382	128,038	4,705
Property and Other Local Taxes Receivable	1,204,659	0	1,204,659	0
Special Assessments Receivable	5,873	34,830	40,703	0
Loans Receivable	211,733	0	211,733	0
Internal Balances	32,531	(32,531)	0	0
Restricted Assets:				
Cash and Cash Equivalents - Customer Deposits	0	282,582	282,582	0
Investments	109,850	0	109,850	0
Non-Depreciable Capital Assets	1,352,966	12,404,114	13,757,080	334,255
Depreciable Capital Assets, Net	14,974,286	15,577,868	30,552,154	1,804,041
Total Assets	31,058,237	36,498,679	67,556,916	2,479,000
Liabilities				
Accounts Payable	349,185	87,063	436,248	136,828
Accrued Wages and Benefits Payable	313,294	77,212	390,506	18,881
Intergovernmental Payable	1,182,236	226,165	1,408,401	47,565
Accrued Interest Payable	5,222	2,569	7,791	0
Contracts Payable	158,155	453,747	611,902	0
Retainage Payable	6,580	493,159	499,739	0
Claims Payable	286,437	0	286,437	0
Customer Deposits Payable	0	282,582	282,582	0
Notes Payable	0	0	0	220,000
Deferred Revenue	1,054,939	0	1,054,939	0
Funds Held for Bus Purchase	0	0	0	40,000
Unredeemed Fares	0	0	0	6,264
Long-Term Liabilities:				
Due Within One Year	1,477,415	2,033,313	3,510,728	0
Due In More Than One Year	6,876,222	11,925,464	18,801,686	103,588
Total Liabilities	11,709,685	15,581,274	27,290,959	573,126
Net Assets				
Invested in Capital Assets, Net of Related Debt	9,600,828	14,375,358	23,976,186	2,138,296
Restricted for:				
Capital Projects	899,382	0	899,382	0
Debt Service	345,944	0	345,944	0
Restricted for Community Development Projects	1,579,478	0	1,579,478	0
Restricted for Cemetery	819,094	0	819,094	0
Other Purposes	1,533,931	0	1,533,931	0
Unrestricted	4,569,895	6,542,047	11,111,942	(232,422)
Total Net Assets	\$19,348,552	\$20,917,405	\$40,265,957	\$1,905,874

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$3,440,471	\$303,980	\$5,488	\$0
Security of Persons and Property	11,955,487	1,718,931	1,668,248	0
Public Health Services	1,891,821	224,882	384,136	0
Leisure Time Activities	1,394,819	136,043	128,960	0
Community Environment	1,177,759	132,231	181,093	0
Transportation	1,964,628	340,815	375,905	618,162
Interest and Fiscal Charges	97,364	0	24,614	0
<i>Total Governmental Activities</i>	<u>21,922,349</u>	<u>2,856,882</u>	<u>2,768,444</u>	<u>618,162</u>
Business-Type Activities				
Sewer	3,318,133	5,032,861	0	4,000,000
Water	4,417,479	4,356,105	0	0
<i>Total Business-Type Activities</i>	<u>7,735,612</u>	<u>9,388,966</u>	<u>0</u>	<u>4,000,000</u>
<i>Total Primary Government</i>	<u>\$29,657,961</u>	<u>\$12,245,848</u>	<u>\$2,768,444</u>	<u>\$4,618,162</u>
Component Unit:				
Southeast Area Transit Authority	<u>\$3,072,662</u>	<u>\$744,119</u>	<u>\$1,550,109</u>	<u>\$159,408</u>

General Revenues

Property and Other Taxes Levied for General Purposes
Property and Other Taxes Levied for Courts and Public Safety
Property and Other Taxes Levied for Debt Service
Municipal Income Tax Levied for General Purposes
Municipal Income Tax Levied for Police
Municipal Income Tax Levied for Jail Operations
Payments in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated - See Note 3, 23)

Net Assets 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	Component Unit
(\$3,131,003)	\$0	(\$3,131,003)	\$0
(8,568,308)	0	(8,568,308)	0
(1,282,803)	0	(1,282,803)	0
(1,129,816)	0	(1,129,816)	0
(864,435)	0	(864,435)	0
(629,746)	0	(629,746)	0
(72,750)	0	(72,750)	0
(15,678,861)	0	(15,678,861)	0
0	5,714,728	5,714,728	0
0	(61,374)	(61,374)	0
0	5,653,354	5,653,354	0
(15,678,861)	5,653,354	(10,025,507)	0
0	0	0	(619,026)
630,285	0	630,285	0
225,633	0	225,633	0
461,644	0	461,644	0
7,355,538	0	7,355,538	0
3,478,216	0	3,478,216	0
1,247,211	0	1,247,211	0
25,842	0	25,842	0
2,984,167	0	2,984,167	0
825,473	32,606	858,079	4,660
140,565	154	140,719	173,509
17,374,574	32,760	17,407,334	178,169
1,695,713	5,686,114	7,381,827	(440,857)
17,652,839	15,231,291	32,884,130	2,346,731
<u>\$19,348,552</u>	<u>\$20,917,405</u>	<u>\$40,265,957</u>	<u>\$1,905,874</u>

City of Zanesville, Ohio
Balance Sheet
Governmental Funds
December 31, 2006

	General	Police	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,493,208	\$182,482	\$931,818	\$3,474,123	\$6,081,631
Cash and Cash Equivalents					
In Segregated Accounts	11,060	0	3,687	54,004	68,751
Receivables:					
Property and Other Local Taxes	573,583	0	0	631,076	1,204,659
Municipal Income Tax	1,178,739	589,258	0	235,838	2,003,835
Accounts	867,804	4,000	0	197,864	1,069,668
Special Assessments	2,139	0	0	3,734	5,873
Loans	0	0	0	211,733	211,733
Interfund	3,072	0	0	0	3,072
Intergovernmental	1,374,069	0	52,870	1,511,442	2,938,381
Materials and Supplies Inventory	0	6,263	0	43,486	49,749
Prepaid Items	35,352	20,335	2,036	32,327	90,050
Restricted Assets:					
Investments	67,000	0	0	0	67,000
Total Assets	<u>\$5,606,026</u>	<u>\$802,338</u>	<u>\$990,411</u>	<u>\$6,395,627</u>	<u>\$13,794,402</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$135,333	\$7,321	\$16,232	\$148,006	\$306,892
Retainage Payable	0	0	0	6,580	6,580
Accrued Wages and Benefits Payable	133,316	100,694	0	69,231	303,241
Contracts Payable	0	0	14,417	143,738	158,155
Intergovernmental Payable	212,741	371,002	60,380	510,415	1,154,538
Interfund Payable	44,334	30,433	0	29,094	103,861
Deferred Revenue	2,207,064	94,186	36,087	2,017,096	4,354,433
Total Liabilities	<u>2,732,788</u>	<u>603,636</u>	<u>127,116</u>	<u>2,924,160</u>	<u>6,387,700</u>
Fund Balances					
Reserved for Encumbrances	112,996	16,079	261,552	440,891	831,518
Reserved for Unclaimed Monies	17,929	0	0	0	17,929
Reserved for Loans	0	0	0	211,733	211,733
Unreserved, Undesignated, Reported in:					
General Fund	2,742,313	0	0	0	2,742,313
Special Revenue Funds	0	182,623	0	2,538,274	2,720,897
Debt Service Funds	0	0	0	280,569	280,569
Capital Projects Funds	0	0	601,743	0	601,743
Total Fund Balances	<u>2,873,238</u>	<u>198,702</u>	<u>863,295</u>	<u>3,471,467</u>	<u>7,406,702</u>
Total Liabilities and Fund Balances	<u>\$5,606,026</u>	<u>\$802,338</u>	<u>\$990,411</u>	<u>\$6,395,627</u>	<u>\$13,794,402</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Fund Balances		\$7,406,702
 <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. (governmental internal service fund capital assets included)		16,327,252
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Property and Other Taxes	475,468	
Deferred Assessments	897,206	
Intergovernmental	1,926,820	
Total	3,299,494	3,299,494
Internal service funds are used by management to charge the cost of insurance and vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (excluding capital assets reported above and compensated absences reported below)		673,963
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds Payable	(6,738,190)	
Accrued Interest Payable	(5,222)	
Capital Leases Payable	(984)	
Compensated Absences Payable	(1,614,463)	
Total	(8,358,859)	(8,358,859)
 <i>Net Assets of Governmental Activities</i>		 \$19,348,552

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Police	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Taxes	\$548,703	\$0	\$0	\$613,681	\$1,162,384
Municipal Income Tax	7,275,901	3,499,092	121,353	1,255,563	12,151,909
Payments in Lieu of Taxes	0	0	25,842	0	25,842
Charges for Services	514,911	13,214	0	1,228,124	1,756,249
Fines, Licenses and Permits	491,338	0	124,351	360,794	976,483
Intergovernmental	2,858,958	420	629,211	2,297,135	5,785,724
Interest	708,619	0	0	116,854	825,473
Rent	9,627	0	0	17,524	27,151
Other	34,185	29,943	0	49,286	113,414
<i>Total Revenues</i>	<u>12,442,242</u>	<u>3,542,669</u>	<u>900,757</u>	<u>5,938,961</u>	<u>22,824,629</u>
Expenditures					
Current:					
General Government	3,348,174	0	0	21,672	3,369,846
Security of Persons and Property	3,937,848	5,418,270	0	2,329,269	11,685,387
Public Health Services	44,330	0	0	1,786,599	1,830,929
Leisure Time Activities	685,291	0	0	592,534	1,277,825
Community Environment	309,755	0	0	838,480	1,148,235
Transportation	0	0	166,180	1,739,505	1,905,685
Capital Outlay	0	0	3,901,859	143,738	4,045,597
Debt Service:					
Principal Retirement	0	1,182	0	358,000	359,182
Interest and Fiscal Charges	0	196	0	105,978	106,174
<i>Total Expenditures</i>	<u>8,325,398</u>	<u>5,419,648</u>	<u>4,068,039</u>	<u>7,915,775</u>	<u>25,728,860</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>4,116,844</u>	<u>(1,876,979)</u>	<u>(3,167,282)</u>	<u>(1,976,814)</u>	<u>(2,904,231)</u>
Other Financing Sources (Uses)					
Proceeds from Loans	0	0	3,459,688	0	3,459,688
Transfers In	0	1,670,647	0	1,859,897	3,530,544
Transfers Out	(3,655,531)	0	0	0	(3,655,531)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,655,531)</u>	<u>1,670,647</u>	<u>3,459,688</u>	<u>1,859,897</u>	<u>3,334,701</u>
<i>Net Change in Fund Balances</i>	461,313	(206,332)	292,406	(116,917)	430,470
<i>Fund Balances Beginning of Year</i>	<u>2,411,925</u>	<u>405,034</u>	<u>570,889</u>	<u>3,588,384</u>	<u>6,976,232</u>
<i>Fund Balances End of Year</i>	<u>\$2,873,238</u>	<u>\$198,702</u>	<u>\$863,295</u>	<u>\$3,471,467</u>	<u>\$7,406,702</u>

See accompanying notes to the basic financial statements

City of Zanesville, 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 Balance - Total Governmental Funds \$430,470

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

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

Capital Asset Additions	4,411,492	
Current Year Depreciation	(853,084)	
Total	3,558,408	3,558,408

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

Property and Municipal Taxes	84,234	
Charges for Services	120,418	
Intergovernmental	588,782	
Total	793,434	793,434

Repayments of general obligation bonds, JEDD bond, and capital leases are an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets.

General Obligation Bonds	292,000	
JEDD Bond	66,000	
Capital Leases	1,182	
Total	359,182	359,182

Proceeds from the issuance of loans in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (3,459,688)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding obligations on the statement of net assets. Premiums are reported as revenues when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities. 1,549

Some expenses reported on the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.

Accrued Interest Payable	7,261	
Compensated Absences Payable	95,946	
Total	103,207	103,207

The internal service funds used by management to charge the costs of insurance and vehicle maintenance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net expenses of the internal service funds are allocated among governmental activities. Change in net assets is net of depreciation expense and change in compensated absences, which are included above. (90,849)

Change in Net Assets of Governmental Activities \$1,695,713

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$545,654	\$503,070	\$548,703	\$45,633
Municipal Income Tax	7,972,171	7,565,561	7,424,025	(141,536)
Charges for Services	483,900	519,516	523,051	3,535
Fines, Licenses and Permits	494,182	504,858	456,535	(48,323)
Rental Income	500	9,067	9,177	110
Intergovernmental	2,023,376	2,329,900	2,474,103	144,203
Interest	240,000	382,000	651,148	269,148
Other	65,100	45,354	20,731	(24,623)
<i>Total Revenues</i>	<u>11,824,883</u>	<u>11,859,326</u>	<u>12,107,473</u>	<u>248,147</u>
Expenditures				
Current:				
General Government	5,006,080	4,088,853	3,417,232	671,621
Security of Persons and Property	3,388,299	4,174,928	4,106,519	68,409
Public Health Services	42,330	44,330	44,330	0
Leisure Time Activities	650,057	819,242	709,477	109,765
Community Environment	304,809	331,324	294,700	36,624
<i>Total Expenditures</i>	<u>9,391,575</u>	<u>9,458,677</u>	<u>8,572,258</u>	<u>886,419</u>
<i>Excess of Revenues Over Expenditures</i>	<u>2,433,308</u>	<u>2,400,649</u>	<u>3,535,215</u>	<u>1,134,566</u>
Other Financing Sources (Uses)				
Transfers In	174,430	4,523	0	(4,523)
Transfers Out	0	0	(3,655,531)	(3,655,531)
<i>Total Other Financing Sources (Uses)</i>	<u>174,430</u>	<u>4,523</u>	<u>(3,655,531)</u>	<u>(3,660,054)</u>
<i>Net Change in Fund Balance</i>	2,607,738	2,405,172	(120,316)	(2,525,488)
<i>Fund Balance Beginning of Year</i>	910,898	910,898	910,898	0
Prior Year Encumbrances Appropriated	387,595	387,595	387,595	0
<i>Fund Balance End of Year</i>	<u>\$3,906,231</u>	<u>\$3,703,665</u>	<u>\$1,178,177</u>	<u>(\$2,525,488)</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Fund
For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Municipal Income Taxes	\$3,617,294	\$3,617,294	\$3,573,248	(\$44,046)
Charges for Services	20,000	20,000	13,214	(6,786)
Contributions and Donations	0	20,000	20,000	0
Intergovernmental	200	200	420	220
Other	6,000	6,609	5,943	(666)
<i>Total Revenues</i>	3,643,494	3,664,103	3,612,825	(51,278)
Expenditures				
Current:				
Security of Persons and Property	5,543,187	5,587,923	5,375,799	212,124
<i>Excess of Revenues Under Expenditures</i>	(1,899,693)	(1,923,820)	(1,762,974)	160,846
Other Financing Sources (Uses)				
Transfers In	1,670,647	1,670,647	1,670,647	0
<i>Total Other Financing Sources (Uses)</i>	1,670,647	1,670,647	1,670,647	0
<i>Net Change in Fund Balance</i>	(229,046)	(253,173)	(92,327)	160,846
<i>Fund Balance Beginning of Year</i>	222,601	222,601	222,601	0
Prior Year Encumbrances Appropriated	30,572	30,572	30,572	0
<i>Fund Balance End of Year</i>	<u>\$24,127</u>	<u>\$0</u>	<u>\$160,846</u>	<u>\$160,846</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
Assets				
Current:				
Equity in Pooled Cash and Cash Equivalents	\$4,188,180	\$1,704,325	\$5,892,505	\$752,013
Receivables:				
Accounts	661,017	498,377	1,159,394	27,930
Special Assessments	34,830	0	34,830	0
Interfund	0	0	0	164,883
Materials and Supplies Inventory	343,573	306,803	650,376	125,575
Prepaid Items	17,242	19,140	36,382	1,606
Restricted Assets:				
Cash and Cash Equivalents - Customer Deposits Cash and Cash Equivalents in Segregated Accounts	0	282,582	282,582	0
	493,159	0	493,159	0
Total Current Assets	5,738,001	2,811,227	8,549,228	1,072,007
Noncurrent:				
Non-Depreciable Capital Assets	7,170,950	82,065	7,253,015	0
Depreciable Capital Assets, Net	16,057,134	4,671,833	20,728,967	11,814
Total Noncurrent Assets	23,228,084	4,753,898	27,981,982	11,814
Total Assets	28,966,085	7,565,125	36,531,210	1,083,821
Liabilities				
Current:				
Accounts Payable	49,796	37,267	87,063	42,293
Accrued Wages and Benefits Payable	36,245	40,967	77,212	10,053
Compensated Absences Payable	104,613	117,801	222,414	21,739
Contracts Payable	453,747	0	453,747	0
Intergovernmental Payable	109,875	116,290	226,165	27,698
Claims Payable	0	0	0	286,437
Interfund Payable	14,948	17,583	32,531	31,563
Accrued Interest Payable	906	1,663	2,569	0
OWDA Loans Payable	1,196,943	276,586	1,473,529	0
OPWC Loans Payable	0	32,870	32,870	0
General Obligation Bonds Payable	180,000	124,500	304,500	0
Total Current Liabilities	2,147,073	765,527	2,912,600	419,783
Current Liabilities Payable from Restricted Assets:				
Customer Deposits	0	282,582	282,582	0
Retainage Payable	493,159	0	493,159	0
Total Current Liabilities Payable from Restricted Assets	493,159	282,582	775,741	0
Long-Term (Net of Current Portion):				
Compensated Absences Payable	49,077	80,662	129,739	14,115
OWDA Loans Payable	8,231,761	2,056,110	10,287,871	0
OPWC Loans Payable	0	249,354	249,354	0
General Obligation Bonds Payable	371,250	887,250	1,258,500	0
Total Long-Term Liabilities	8,652,088	3,273,376	11,925,464	14,115
Total Liabilities	11,292,320	4,321,485	15,613,805	433,898
Net Assets				
Invested in Capital Assets, Net of Related Debt	13,248,130	1,127,228	14,375,358	11,814
Restricted for:				
Capital Projects	39,939	0	39,939	0
Debt Service	66,855	32,472	99,327	0
Unrestricted	4,318,841	2,083,940	6,402,781	638,109
Total Net Assets	\$17,673,765	\$3,243,640	20,917,405	\$649,923

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
Operating Revenues				
Charges for Services	\$5,032,861	\$4,356,105	\$9,388,966	\$4,696,428
<i>Total Operating Revenues</i>	<u>5,032,861</u>	<u>4,356,105</u>	<u>9,388,966</u>	<u>4,696,428</u>
Operating Expenses				
Personal Services	1,649,196	1,880,458	3,529,654	466,118
Contractual Services	573,206	1,516,582	2,089,788	29,102
Materials and Supplies	233,112	510,281	743,393	780,269
Claims	0	0	0	3,644,199
Other	5,150	131,661	136,811	0
Depreciation	427,145	209,919	637,064	3,551
<i>Total Operating Expenses</i>	<u>2,887,809</u>	<u>4,248,901</u>	<u>7,136,710</u>	<u>4,923,239</u>
<i>Operating Loss</i>	2,145,052	107,204	2,252,256	(226,811)
Non-Operating Revenues (Expenses)				
Interest	14,826	17,780	32,606	0
Interest and Fiscal Charges	(430,324)	(168,578)	(598,902)	0
Proceeds from Sale of Assets	0	0	0	0
Other Non-Operating Revenues	154	0	154	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(415,344)</u>	<u>(150,798)</u>	<u>(566,142)</u>	<u>0</u>
<i>Loss Before Transfers</i>	1,729,708	(43,594)	1,686,114	(226,811)
Transfers In	0	0	0	124,987
<i>Loss Before Capital Contributions</i>	1,729,708	(43,594)	1,686,114	(101,824)
Capital Contributions	4,000,000	0	4,000,000	0
<i>Change in Net Assets</i>	5,729,708	(43,594)	5,686,114	(101,824)
<i>Net Assets Beginning of Year (Restated Note 3)</i>	<u>11,944,057</u>	<u>3,287,234</u>	<u>15,231,291</u>	<u>751,747</u>
<i>Net Assets End of Year</i>	<u><u>\$17,673,765</u></u>	<u><u>\$3,243,640</u></u>	<u><u>\$20,917,405</u></u>	<u><u>\$649,923</u></u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$5,036,079	\$4,359,875	\$9,395,954	\$4,789,668
Cash Payments for Employee Services and Benefits	(1,603,787)	(1,824,967)	(3,428,754)	(446,231)
Cash Payments to Suppliers for Goods and Services	(829,768)	(2,158,723)	(2,988,491)	(800,623)
Cash Payments for Claims	0	0	0	(3,624,572)
<i>Net Cash Provided by (Used in) Operating Activities</i>	2,602,524	376,185	2,978,709	(81,758)
Cash Flows from Noncapital Financing Activities:				
Transfer In	0	0	0	124,987
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	0	0	0	124,987
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(5,954,581)	0	(5,954,581)	0
OWDA Loans Issued	1,246,439	341,419	1,587,858	0
Other Non-Operating	154	0	154	0
Principal Paid on Debt	(985,234)	(372,118)	(1,357,352)	0
Interest Paid on Debt	(430,620)	(168,780)	(599,400)	0
Capital Contributions	4,438,750	0	4,438,750	0
<i>Net Cash Provided by Capital and Related Financing Activities</i>	(1,685,092)	(199,479)	(1,884,571)	0
Cash Flows from Investing Activities:				
Interest on Investments	14,826	17,780	32,606	0
<i>Net Cash Provided by Investing Activities</i>	14,826	17,780	32,606	0
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	932,258	194,486	1,126,744	43,229
<i>Cash and Cash Equivalents Beginning of Year - (Restated See Note 3)</i>	3,749,081	1,792,421	5,541,502	708,784
<i>Cash and Cash Equivalents End of Year</i>	\$4,681,339	\$1,986,907	\$6,668,246	\$752,013

(Continued)

City of Zanesville, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006
(Continued)

	<u>Business Type Activities - Enterprise Funds</u>			Governmental Activities- Internal Service Funds
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
<i>Operating Income (Loss)</i>	\$2,145,052	\$107,204	\$2,252,256	(\$226,811)
Adjustments:				
Depreciation	427,145	209,919	637,064	3,551
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	3,218	(6,409)	(3,191)	(24,349)
(Increase) Decrease in Interfund Receivable	0	0	0	117,589
(Increase) Decrease in Materials and Supplies Inventory	3,546	10,764	14,310	22,057
(Increase) Decrease in Prepaid Items	(17,242)	7,149	(10,093)	(15)
Increase (Decrease) in Accounts Payable	(10,165)	(3,706)	(13,871)	18,693
Increase (Decrease) in Contracts Payable	0	(18,577)	(18,577)	(1,591)
Increase (Decrease) in Accrued Wages and Benefits Payable	5,088	6,776	11,864	605
Increase (Decrease) in Intergovernmental Payable	46,219	50,095	96,314	12,082
Increase/(Decrease) in Claims Payable	0	0	0	19,627
Increase (Decrease) in Compensated Absences Payable	(4,383)	2,823	(1,560)	7,424
Increase (Decrease) in Interfund Payable	4,046	(32)	4,014	(30,620)
Increase/(Decrease) in Customer Deposits	0	10,179	10,179	0
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>\$2,602,524</u>	<u>\$376,185</u>	<u>\$2,978,709</u>	<u>(\$81,758)</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2006

	Private Purpose Trust Funds	Agency Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,445	\$99,546
Investments	14,800	0
<i>Total Assets</i>	<i>\$25,245</i>	<i>\$99,546</i>
Liabilities		
Undistributed Monies	0	99,546
<i>Total Liabilities</i>	<i>0</i>	<i>\$99,546</i>
Net Assets		
Held in Trust	25,245	
<i>Total Net Assets</i>	<i>\$25,245</i>	

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2006

	Private Purpose Trust Funds
Additions	
Interest	\$53
Deletions	
Other	95
<i>Change in Net Assets</i>	148
<i>Net Assets Beginning of Year</i>	25,097
<i>Net Assets End of Year</i>	\$25,245

See accompanying notes to the basic financial statements

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Zanesville (the "City") is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The City is organized as a Mayor/Council form of government. Located in Muskingum County, the City was established in 1814. The City is located 55 miles east of Columbus, once served as the state capital, and currently serves as the county seat. The City employs approximately 392 people. The Mayor, Council, Auditor, Treasurer, and Law Director are elected officials. Department directors and public members of various boards and commissions are appointed by the Mayor.

A. Reporting Entity

The City utilizes the standards of Governmental Accounting Standards Board Statement 14 for determining the reporting entity.

The financial reporting entity consists of a) the primary government, b) component units, which are legally separate organizations which are fiscally dependent on the City or for which the City is financially accountable, and c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City provides various services including police and fire protection, recreation (including parks), planning, zoning, street maintenance and repair, water and water pollution control, sanitation services, and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. These City operations form the legal entity of the City and are included as part of the primary government.

The "Component Unit" column in the Combined Financial Statements identifies the financial data of the City's component unit, the South East Area Transit Authority, formerly known as Muskingum Authority of Public Transit. It is discretely reported to emphasize that it is legally separate from the City.

The South East Area Transit Authority is a legally separate entity, organized under the laws of the State of Ohio, which is governed by a nine member board of directors. The board consists of six members appointed by the City, two members appointed by Muskingum County, and one member appointed by the Village of South Zanesville. The Authority provides bus service within the City of Zanesville, the Village of South Zanesville, and portions of Muskingum County. The Authority derives its revenues from bus fares, Federal Transit Authority grants administered by the State of Ohio, local matching funds, and other miscellaneous revenue sources. The City currently provides approximately 73 percent of the Authority's local matching funds. The remaining 27 percent is provided by the County and Village. The Authority operates on a fiscal year ending December 31. The operating statement of the Authority is presented at operating and non-operating category levels. Separately issued financial statements can be obtained from the South East Area Transit Authority, Zanesville, Ohio.

The following have been excluded from the financial reporting entity:

Muskingum County Public Library
Zanesville City School District
Muskingum Community Action Group, Inc.
Muskingum College
Muskingum Area Technical College
Zanesville/Muskingum Convention and Visitors Bureau
Zanesville City Chamber of Commerce
East Muskingum Water Authority
East Muskingum Local School District

The City is involved with the following organizations which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 17.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION (Continued)

Ohio Mid-Eastern Governments Association (OMEGA)
Zanesville/Muskingum County Port Authority
Zanesville/Muskingum Conventions Facility Authority
Zanesville Metropolitan Housing Authority
Muskingum County Center for Seniors

The City is involved with the following organizations which are defined as joint ventures. Additional information concerning the joint ventures is presented in Note 18.

Zanesville, South Zanesville and Springfield Joint Economic Development District (JEDD)
Zanesville-Washington Township Joint Economic Development District (JEDD)
Zanesville-Newton Township Joint Economic Development District (JEDD)

The City is associated with the Ohio Rural Water Association Workers Compensation Group Rating Program which is defined as an insurance purchasing pool. Information regarding the pool is presented in Note 19.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies Financial and Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989 to its business type activities and to its proprietary activities provided they do not conflict with Governmental Accounting Standards Board Statements and Interpretations. The City has elected not to follow FASB guidance issue after December 1, 1989. Information in the notes to the Basic Financial Statements relates in general to the primary government. Information related to the operation of the South East Area Transit Authority (component unit) is included in Note 23.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, 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 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 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. 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 governmental program or business activity self-financing or draws from the general revenues of the City.

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

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

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

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

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

Police Fund The Police Fund is used to account for that portion of income tax collections designated for security of persons and property within the City.

Capital Projects Fund To account for revenue and expenditures for various construction projects within the City.

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

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

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

Sewer Fund The Sewer Fund is used to account for the revenues generated from the charges for sanitary sewer services provided to the residential and commercial users of the City.

Water Fund The Water Fund is used to account for the revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Internal Service Funds 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.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. There are four categories of fiduciary funds; 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 agency funds account for grant money passed through for a scenic route project, payroll activity, and mayor's court collections that are distributed to various local governments. The City's private purpose trust fund is used to hold in trust monies that do not benefit the city.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances 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. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenues, 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

Non-exchange 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. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). 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 a non-exchange transaction 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: municipal income taxes, hotel taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, loans, grants, fees, and rentals.

CITY OF ZANESVILLE, 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 revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met also have been recorded as deferred revenue.

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

E. Budget Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. 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 of estimated resources in effect at the time final appropriations were adopted by Council.

The appropriation ordinance fixes spending authority at the fund, department, and object 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 allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. The amounts reported on the budgetary statement reflect the amounts on the amended official certificate of estimated resources in effect at the time final appropriations were adopted by Council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation resolution for that fund that covered 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.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City treasurer is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents (Continued)

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City's treasury.

Cash related to the Component Unit is presented as "Cash and Cash Equivalents in Segregated Accounts".

Investments of the cash management pool and investments with an original maturity of three months or less are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

The City invested funds in the State Asset Reserve of Ohio (STAROhio), repurchase agreements, money market mutual funds and U.S. Treasury Notes during 2006. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when used. Inventories of the proprietary funds are expensed when used.

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the enterprise funds represent customer deposits and retainage payable. Restricted assets in the governmental funds represents funds restricted as part of the bond indenture for debt service.

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of U.S. and State roads, City streets, street signs, and water and sewer systems. 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 phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. 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>
Buildings and Improvements	10 - 100 years	10 - 100 years
Machinery and Equipment	4 - 20 years	4 - 20 years
Vehicles	3 - 10 years	3 - 10 years
Infrastructure	8 - 10 years	8 - 10 years

K. 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 employer will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "vacation benefits payable". The balances are to be used by employees following the year earned. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for police and jail employees after five years of service; street, water, sewer and sanitation employees after seven years of service; fire department employees after one year of service; and all other City employees after nine years of service.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. 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 special termination benefits 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. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Unamortized Issuance Costs/Bond Premiums

Issuance costs and bond premiums are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition to the face amount of bonds payable.

N. Fund Balance Reserves

Fund balance reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances, loans receivables, and unclaimed monies. Under Ohio law, unclaimed funds are not available for appropriation until they have remained unclaimed for five years.

O. Net Assets

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

Net assets restricted for other purposes include activities related to community health and improvement, court and public safety, law enforcement, jail operating, airport, cemetery, auditorium, and sanitation..

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

Of the City's \$5,177,829 restricted net assets, \$292,800 is restricted by enabling legislation.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for sewer and water utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting the definition are reported as non-operating.

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Contributions of Capital

Contributions of capital in the proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

R. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating 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. Transfers within governmental activities or within business-type activities are eliminated in the statement of activities.

S. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund transactions which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the Statement of Net Assets, except for any residual amounts due between governmental and business-type activities, which are presented as internal balances.

T. Estimates

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

NOTE 3 - RESTATEMENT OF PRIOR YEAR FUND EQUITY AND CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year 2006, the City implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Restatement of Net Assets: During the previous fiscal year accounting errors were noted in materials and supplies inventory, loan balances, customer deposits, and capital assets that had the following affect on beginning net asset balances:

	Governmental Activities	Water	Sewer	Business-Type Activities
Net Assets as of December 31, 2005	\$16,579,559	\$4,682,429	\$11,302,682	\$15,985,111
ODOT Loan	(666,752)	666,752	0	666,752
OPWC Loan	0	(314,447)	0	(314,447)
Customer Deposits	0	0	651,022	651,022
Materials and Supplies	0	(7,468)	(9,647)	(17,115)
Capital Assets	1,740,032	(1,740,032)	0	(1,740,032)
Net Assets as January 1, 2006	<u>\$17,652,839</u>	<u>\$3,287,234</u>	<u>\$11,944,057</u>	<u>\$15,231,291</u>

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 – 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 (Non-GAAP Basis) and Actual presented for the General Fund and each major special revenue 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 are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures 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).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund and the Police Special Revenue Funds.

Net Change in Fund Balance

	General	Police
GAAP Basis	\$461,313	(\$206,332)
Revenue Accruals	(334,769)	70,156
Expenditure Accruals	(18,842)	65,484
Encumbrances	(228,018)	(21,635)
Budget Basis	(\$120,316)	(\$92,327)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current two 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 monies 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.

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or 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. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the City lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5 percent of the City's total average portfolio; and
10. Bankers acceptances for a period not to exceed two hundred seventy days and in an amount not to exceed 10 percent of the City's total average portfolio.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Deposits Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on a deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities value at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The City's bank balance of \$1,859,248 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner as described above.

Investments The City had the following investments at December 31, 2006:

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
General Obligation Bonds	\$67,000	\$0	\$67,000	<1 Year
U.S. Treasury Notes	50,000	0	50,000	<1 Year
Repurchase Agreements	0	7,293,988	7,293,988	<1 Year
STAR Ohio	<u>0</u>	<u>0</u>	<u>5,047,102</u>	<1 Year
Total	<u>\$117,000</u>	<u>\$7,293,988</u>	<u>\$12,458,090</u>	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no policy specifically dealing with interest rate risk in accordance with the investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's investment policy allows the City to invest in accordance with the Ohio Revised Code (Ohio Law). Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount the City may invest in any on issuer. The City has invested 40% in STAR Ohio and 59% in Repurchase Agreements.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's securities are either insured and registered in the name of the City or at least registered in the name of the City with the exception of the repurchase agreements.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

The full tax rate for all City operations for the year ended December 31, 2006, was \$3.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$308,329,180
Tangible Personal Property	<u>60,576,939</u>
	<u><u>\$368,906,119</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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

The County Treasurer collects property taxes on behalf of Muskingum County, including the City of Zanesville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services including unbilled utility services), special assessments, loans, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are collectible in full. Delinquent accounts receivable are certified and collected as a special assessment, subject to foreclosure for nonpayment.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 – RECEIVABLES (Continued)

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
Local Government	\$857,821
Estate Tax	481,069
Gasoline Tax	260,888
Excise and Sales Tax	143,440
Motor Vehicle License Tax	173,025
Rollback and Homestead	25,303
De-regulation (SB3) Tax	9,449
ODOT Grant	18,053
Court and Public Safety Grants	29,567
Community Development Grants	907,018
Airport Grants	23,485
Sales and Intangible Tax	9,263
	<u>\$2,938,381</u>

NOTE 8 - INCOME TAX

The City levies a municipal income tax of one and seven tenths percent on substantially all earned income arising from employment, residency, or business activities within the City as well as income of residents earned outside of the City.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are distributed to funds in the following manner: 1% to General Fund, .5% to Police Expenditure Special Revenue Fund, and .2% to Jail Operating Special Revenue Fund. Income tax revenue for 2006 was \$12,080,965.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 – CAPITAL ASSETS

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

	*Restated Balance <u>12/31/2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/2006</u>
Governmental Activities:				
Non Depreciable Capital Assets:				
Land	\$1,188,231	\$0	\$0	\$1,188,231
Construction in Progress	1,740,032	164,735	(1,740,032)	164,735
Total Non Depreciable Capital Assets	<u>2,928,263</u>	<u>164,735</u>	<u>(1,740,032)</u>	<u>1,352,966</u>
Depreciable Capital Assets:				
Buildings and Improvements	16,337,954	294,875	0	16,632,829
Machinery and Equipment	1,939,727	21,323	0	1,961,050
Infrastructure	5,451,916	5,670,591	0	11,122,507
Vehicles	3,178,711	0	(43,068)	3,135,643
Total Depreciable Capital Assets	<u>26,908,308</u>	<u>5,986,789</u>	<u>(43,068)</u>	<u>32,852,029</u>
Accumulated Depreciation:				
Buildings and Improvements	(10,765,680)	(308,546)	0	(11,074,226)
Machinery and Equipment	(1,297,291)	(111,261)	0	(1,408,552)
Infrastructure	(2,166,395)	(340,780)	0	(2,507,175)
Vehicles	(2,838,361)	(92,497)	43,068	(2,887,790)
Total Accumulated Depreciation	<u>(17,067,727)</u>	<u>(853,084)</u>	<u>43,068</u>	<u>(17,877,743)</u>
Total Depreciable Capital Assets	<u>9,840,581</u>	<u>5,133,705</u>	<u>0</u>	<u>14,974,286</u>
Governmental Capital Assets, Net	<u>\$12,768,844</u>	<u>\$5,298,440</u>	<u>(\$1,740,032)</u>	<u>\$16,327,252</u>

* As Restated – See Note 3

For 2006, capital assets being reported for infrastructure are limited to additions from 2003 through the current year. The historical inventory of infrastructure will be added in future years when those amounts can be accumulated.

Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
General Government	\$25,539
Security of Persons and Property	252,587
Public Health	35,189
Leisure Time Activities	115,001
Transportation	399,472
Community Environment	25,296
Total Depreciation Expense	<u>\$853,084</u>

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 – CAPITAL ASSETS (Continued)

	* Restated Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006
Business Type Activities:				
Non Depreciable Capital Assets:				
Land	\$233,184	\$0	\$0	\$233,184
Construction in Progress	6,545,553	6,671,874	(1,046,497)	12,170,930
Total Non Depreciable Capital Assets	<u>6,778,737</u>	<u>6,671,874</u>	<u>(1,046,497)</u>	<u>12,404,114</u>
Depreciable Capital Assets:				
Buildings and Improvements	7,503,781	110,000	0	7,613,781
Machinery and Equipment	6,565,717	0	0	6,565,717
Infrastructure	14,661,695	1,131,097	0	15,792,792
Vehicles	1,518,777	0	0	1,518,777
Total Depreciable Capital Assets	<u>30,249,970</u>	<u>1,241,097</u>	<u>0</u>	<u>31,491,067</u>
Accumulated Depreciation:				
Buildings and Improvements	(4,576,224)	(117,837)	0	(4,694,061)
Machinery and Equipment	(5,153,972)	(178,503)	0	(5,332,475)
Infrastructure	(4,745,634)	(305,760)	0	(5,051,394)
Vehicles	(800,305)	(34,964)	0	(835,269)
Total Accumulated Depreciation	<u>(15,276,135)</u>	<u>(637,064)</u>	<u>0</u>	<u>(15,913,199)</u>
Total Depreciable Capital Assets, Net	<u>14,973,835</u>	<u>604,033</u>	<u>0</u>	<u>15,577,868</u>
Business Type Capital Assets, Net	<u>\$21,752,572</u>	<u>\$7,275,907</u>	<u>(\$1,046,497)</u>	<u>\$27,981,982</u>

* As Restated – See Note 3

NOTE 10 - RISK MANAGEMENT

A. Primary Government

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. Effective June 1, 2006, the City contracted with Arch Insurance Company for general liability insurance including police professional liability, EMT and Ambulance Malpractice liability, fire legal liability, personal injury and advertising injury. Bodily injury and property damage are covered for \$1,000,000 each occurrence, \$3,000,000 aggregate. The City has a \$5,000 deductible per occurrence for general liability insurance. Personal injury and advertising injury are covered up to \$1,000,000 for each occurrence, premises medical payments limit is \$10,000 per person and fire legal liability is covered \$500,000 per occurrence. Ohio Stop Gap insurance of \$1,000,000 per occurrence and \$3,000,000 aggregate employee benefit liability is also maintained with a \$1,000 deductible, cemetery professional and fire division liability insurance are covered up to \$1,000,000 per occurrence. Property and contents coverage is maintained per summary of values and cost of reproduction new, less exclusions, plus leased and rented items, with a \$1,000 deductible per occurrence. Earthquake coverage is maintained with a \$5,000,000 occurrence limit, \$5,000,000 policy year limit, with a \$100,000 deductible each occurrence. Police professional liability coverage is maintained with a \$1,000,000 each occurrence, \$1,000,000 aggregate limit with a \$10,000 deductible per claim, including loss adjustment expense. Inland Marine is maintained per schedule with a \$1,000 deductible.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - RISK MANAGEMENT (Continued)

Arch Insurance Company provides public official liability (claims made policy) with prior acts retroactive to June 1, 1989 is maintained in the amount of \$1,000,000 per claim, \$1,000,000 aggregate, with a \$10,000 deductible, including loss adjustment expense.

Arch Insurance Company provides vehicle fleet insurance is maintained in the amount of \$1,000,000 CSL covering bodily injury and property damage. Uninsured motorist is covered up to \$1,000,000 CSL. A \$1,000 deductible is effective for collision and comprehensive on certain vehicles. Non-owned and hired vehicles are covered for bodily injury and property damage in the amount of \$1,000,000 CSL.

Boiler and machinery insurance is contracted with Cincinnati Insurance Company with a limit of \$25,000,000 and a \$1,000 deductible.

Arch Insurance Company provides excess liability insurance over general liability, EMT, ambulance malpractice, fire division liability, public official liability, police professional liability, and auto liability is maintained in an aggregate amount of \$6,000,000. Excess liability insurance excludes uninsured/underinsured motorist coverage and is subject to a \$10,000 self insured retention.

The Cincinnati Insurance Company provides crime insurance coverage for robbery and safe burglary with a \$25,000 per occurrence limit and a \$500 deductible.

XL Specialty Insurance Company provides airport liability coverage with a limit of \$2,000,000 per occurrence and aggregate.

Settlements have not exceeded coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

For 2006, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participant is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm Comp Management provides administrative, cost control and actuarial services to the GRP.

The City maintains a limited risk health insurance program for employees. Premiums are paid to a third party administrator, Central Benefits, Inc. All claims are processed and monitored by the third party administrator. An internal service fund is presented in the financial statements and reflects premiums paid into the Health Self-Insurance internal service fund by other funds which are available to pay claims and administrative costs, and establish claim reserves. An excess coverage insurance policy covers aggregate annual claims at 125% of estimated claims. Excess coverage is maintained for individual claims over \$150,000.

The claims liability of the Health Self-Insurance internal service fund of \$286,437 reported at December 31, 2006, is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for 2005 and 2006 were:

Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2005	246,000	3,580,680	3,559,870	266,810
2006	266,810	3,644,199	3,624,572	286,437

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All employees of the City participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans:

The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.

The Member-Director Plan (MD) - 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 member accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earning thereon.

The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

The Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

Plan members are required to contribute 9.0% of their annual covered salary to fund pension obligations and the City is required to contribute 13.70%. Contributions are authorized by State statute. The contribution rates are determined actuarially.

The City's contributions to the PERS of Ohio for the years ending December 31, 2006, 2005, and 2004 were \$984,818, \$949,165, and \$992,346. These contributions were equal to the required contributions for each of the years.

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 pension plan. OP&F provides retirement and disability pension 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 information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$532,186, \$468,993, and \$510,443, for policemen and \$510,397, \$520,858, and \$570,618, for firefighters, respectively, equal to required contributions for each year.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS

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 benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 6 percent annually for the next nine years and 4 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. Actual County contributions for 2006 which were used to fund postemployment benefits were \$290,718. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$11.1 billion. 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 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 funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

OP&F provides access to post-retirement health care coverage for 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 eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 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 had monthly health care contributions.

The number of 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. The City's actual contributions for 2006 that were used to fund postemployment benefits was \$211,278 for Police and \$164,858 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2005 (the latest information available) were \$108,039,449, which was net of member contributions of \$55,271,881.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Other Insurance Benefits

All employees are covered under a \$20,000 life insurance policy through Fort Dearborn Life Insurance except corrections officers whose life insurance policy is \$10,000. Additionally, for non-union employees and elected officials, the City provides coverage under an Accidental Death and Dismemberment policy. To be eligible, employees must work a minimum of twenty hours per week.

The City provides a self-funded comprehensive health insurance plan administered by MedBen. Deductibles vary according to employee group: non-union - \$200 family, \$100 single; police/correction officer/AFSCME unions - \$350 family, \$150 single; and firefighters' union - \$300 family, \$100 single. Employees with family coverage are responsible for a \$15.00 payroll deduction, and employees with single coverage are responsible for a \$5.00 payroll deduction, per pay for the cost of health insurance.

B. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Upon retirement, AFSCME union employees and policemen are paid 33 percent of their sick leave up to a maximum of 385 hours. Assistant Fire Chiefs whose work week consists of 56 hours when averaged over a three-week period shall receive, upon retirement, 33 percent of accrued sick leave up to a maximum of 650 hours. Upon retirement, 33 percent of balance with a maximum payment of 540 hours shall be made to firefighters. Police sergeants and lieutenants shall receive, upon retirement, 33 percent of sick leave balances with a maximum of 500 hours. All other uniformed police shall receive, upon retirement, 33 percent of their balance with a maximum of 500 hours. Corrections officers shall receive, upon retirement, 25 percent of their balance with a maximum of 240 hours of sick leave. Unaffiliated employees shall receive 33 percent of balance with a maximum of 500 hours. All employees are required to have ten or more years of service before any compensation for accumulated sick leave is paid upon retirement. Upon voluntary termination, death, or retirement, with the exception of AFSCME employees who have not been employed with the City for a full year, all other employees will receive 100% of vacation earned and not previously taken.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the City has entered into capitalized leases for copying equipment, and vehicles. Each lease meets the criteria of a capital lease set forth in the Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the Basic Financial Statements for the governmental funds.

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$30,449, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities. Governmental activities capitalized leased assets are reflected net of accumulated depreciation in the amount of \$4,385. Principal payments towards capital leases during 2006 totaled \$1,182.

Future minimum lease payments through 2007 are as follows:

Year	Governmental Activities	
	Principal	Interest
2007	\$984	\$50

NOTE 15 - LONG-TERM LIABILITIES

Changes in the City's long-term liabilities during 2006 consist of the following:

	Outstanding 12/31/2005	Additions	Reductions	Outstanding 12/31/2006	Amounts Due Within One Year
<u>Governmental Activities</u>					
<i>General Obligation Bonds</i>					
<i>Ohio Government Building - 1986 \$950,000</i>					
Serial/Term @ 7.375%	\$280,000	\$0	\$40,000	\$240,000	\$40,000
<i>JEDD Bond - 2002 \$325,000</i>					
Serial/Term @ 3.0%	133,000	0	66,000	67,000	67,000
<i>Capital Facilities Refunding - 2003 \$5,490,000</i>					
Jail Construction Refunding - \$2,362,500					
Serial/Term @ 1.2%-4.00%	2,079,000	0	147,000	1,932,000	150,500
Premium Amortization	11,708	0	901	10,807	901
Capital Improvement Refunding - \$680,000					
Serial/Term @ 2.75%-5.20%	465,000	0	105,000	360,000	115,000
Premium Amortization	2,591	0	648	1,943	648
Total General Obligation Bonds	2,971,299	0	359,549	2,611,750	374,049
<i>ODOT Loans*</i>	666,752	3,459,688	0	4,126,440	0
<i>Capital Leases</i>	2,166	0	1,182	984	984
<i>Compensated Absences</i>	1,710,409	1,614,463	1,710,409	1,614,463	1,102,382
Total Governmental Activities	\$5,350,626	\$5,074,151	\$2,071,140	\$8,353,637	\$1,477,415

* Restated, See Note 3

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - LONG-TERM LIABILITIES (Continued)

	Outstanding 12/31/2005	Additions	Reductions	Outstanding 12/31/2006	Amounts Due Within One Year
Business Type Activities					
General Obligation Bonds					
Capital Facilities Refunding, 2003 \$5,490,000					
Water - \$1,371,250 Serial/Term @ 1.2%-4.0%	\$1,134,750	\$0	\$123,000	\$1,011,750	\$124,500
Sewer - \$387,450 Serial/Term @ 1.2%-4.0%	263,250	0	64,800	198,450	64,800
Storm Sewer - \$688,800 Serial/Term @ 1.2%-4.0%	468,000	0	115,200	352,800	115,200
Total General Obligation Bonds	1,866,000	0	303,000	1,563,000	304,500
OWDA Loans					
Water - 1988,1989 \$3,293,470 @ 7.36% to 8.40%	2,208,172	341,419	216,895	2,332,696	276,586
Sewer - 1984-1986 \$16,633,305 @ 2.0% to 10.02%	8,987,499	1,246,439	805,234	9,428,704	1,196,943
Total OWDA Loans	11,195,671	1,587,858	1,022,129	11,761,400	1,473,529
OPWC Loans*	314,447	0	32,223	282,224	32,870
Compensated Absences	304,271	352,153	304,271	352,153	222,414
Total Business Type Activities	\$13,680,389	\$1,940,011	\$1,661,623	\$13,958,777	\$2,033,313

* Restated, See Note 3

1986 Ohio Government Building Bonds – On August 13, 1986 the City of Zanesville issued \$950,000 of general obligation bonds. The bonds are serial bonds. These bonds were issued for governmental activities to construct a building to house government offices. These bonds are not subject to redemption prior to maturity. The bonds are being repaid through the debt service fund from tax revenues. Principal and interest requirements to retire these bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2007	\$40,000	\$17,700
2008	40,000	14,750
2009	40,000	11,800
2010	40,000	8,850
2011	40,000	5,900
2012	40,000	2,950
Totals	\$240,000	\$61,950

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - LONG-TERM LIABILITIES (Continued)

2002 JEDD Bond – In 2002, the City of Zanesville issued \$325,000 of general obligation bonds for the Zanesville/Newton Joint Economic Development District. These bonds were issued to construct water and sewer lines that are capital assets of the District, not of the City of Zanesville. These bonds are being repaid through general fund revenues. The bonds were purchased by the City to be held as investments. Principal and interest requirements to retire these bonds are as follows:

Year Ending December 31	Governmental Activities	
	Principal	Interest
2007	\$67,000	\$2,010

2003 Capital Facilities Refunding Bonds – On December 1, 2003, the City of Zanesville issued \$5,490,000 of general obligation bonds and included serial and term bonds in the amount of \$4,245,000 and \$1,245,000 respectively. These capital facilities refunding bonds were issued for governmental and business type activities \$3,042,500 and \$2,447,500, respectively. The refunding bonds were issued with a premium of \$17,397 for governmental and \$13,993 for business type activities, which is reported as an increase to bonds payable. These amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The issuance costs, \$60,883 for governmental and \$48,975 for business type activities, are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The refunding, called and paid in February of 2004, resulted in a difference between the net carrying amount of the debt and the acquisition price, \$23,380 for governmental and \$10,020 for business type activities. These differences, are being reported as a decrease to bonds payable, and are being amortized to interest expense over the life of the bonds using the straight-line method. These bonds are being repaid through a tax levy, and to the extent available, water and sewer revenues.

The bonds maturing on or after December 1, 2014 are subject to prior redemption on or any date after December 1, 2013, by and at the sole option of the City, either in whole or in part (as selected by the City) and in integral multiples of \$5,000, at par, plus accrued interest to the redemption date.

Principal and interest requirements to retire the 2004 Capital Facilities Refunding Bonds outstanding at December 31, 2006 are as follows:

Year Ending December 31	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2007	\$265,500	\$76,298	\$304,500	\$48,683
2008	274,000	69,661	311,000	41,071
2009	282,500	62,126	317,500	32,518
2010	143,500	53,651	61,500	22,993
2011	147,000	49,166	63,000	21,071
2012-2016	812,000	165,025	348,000	70,725
2017-2018	367,500	22,081	157,500	9,464
Totals	\$2,292,000	\$498,008	\$1,563,000	\$246,525

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - LONG-TERM LIABILITIES (Continued)

OWDA Loans – The County has issued numerous OWDA Loans for various water and sewer projects. Two of the outstanding loans are not yet completed, and therefore the repayments schedules have not yet been issued, they are reflected as not yet scheduled payments in the table below. The loans will be repaid through charges for services revenue in the enterprise funds. On May 29, 2003, the OWDA Board authorized an interest rate subsidy program that became effective with the January 2004 payment. A summary of the principal and interest requirements to retire these loans are as follows:

Year Ending December 31	Principal	Interest
2007	\$646,190	\$282,170
2008	684,463	241,253
2009	691,128	199,818
2010	737,641	157,117
2011	725,664	91,362
2012-2016	1,132,780	96,988
Subtotal	4,617,866	\$1,068,708
Not Yet Scheduled	7,143,534	
Total	\$11,761,400	

ODOT Loan- During 2005, the City entered into a loan agreement with the Ohio Department of Transportation. These proceeds are being used to complete a connector road project. The current amount received to date is \$4,126,440. The project is estimated at approximately \$5 million.

OPWC Loan- During 2005, the City issued an OPWC loan in the amount of \$346,035. The loan was issued for the Blandy Water Tank Replacement Project. The loan was issued at .02% and will mature in 2015. A summary of the principal and interest requirements to retire this loan is as follows:

Year Ending December 31	Principal	Interest
2007	\$32,870	\$5,481
2008	33,531	4,820
2009	34,205	4,146
2010	34,893	3,459
2011	35,594	2,757
2012-2015	111,131	3,922
Totals	\$282,224	\$24,585

Capital Leases – The City has issued capital leases for office equipment and a vehicle. The leases will be repaid through the Court and Public Safety, Police, and Jail Operating funds from City revenues.

Compensated Absences – The County will pay compensated absences from the General fund, Miscellaneous Special Revenue, Court and Public Safety, Police, Jail Operating, Community Development, Airport, Cemetery, Auditorium, and Sanitation Special Revenue funds, Vehicle Maintenance fund, and the Sewer and Water Enterprise funds.

Debt Margin:

The City's overall legal debt margin was \$30,602,551 at December 31, 2006.

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 – INTERFUND TRANSACTIONS

Interfund balances at December 31, 2006 consist of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>			
	<u>Major Fund</u>	<u>Internal Service Funds</u>		<u>Total</u>
	<u>General</u>	<u>Vehicle Maintenance</u>	<u>Self Insurance</u>	
Major Funds:				
General Fund	\$0	\$10,991	\$33,343	\$44,334
Police	0	9,772	20,661	30,433
Sewer	0	5,481	9,467	14,948
Water	3,072	8,253	6,258	17,583
Other Nonmajor				
Governmental	0	15,339	13,755	29,094
Vehicle Maintenance Internal Service Fund	0	0	31,563	31,563
Total All Funds	\$3,072	\$49,836	\$115,047	\$167,955

The interfund payable in the Other Nonmajor Governmental Funds is a result of monies from the General Fund that were used to fund capital projects of the City.

The interfund receivable in the Self Insurance and Vehicle Maintenance Funds is a result of the liability from County Funds to those funds for services that were provided to the corresponding funds.

Interfund transfers for the year ended December 31, 2006 consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>			<u>Totals</u>
	<u>Major Fund</u>	<u>Other Nonmajor</u>	<u>Internal Service Fund</u>	
	<u>Police</u>	<u>Governmental</u>	<u>Vehicle Maintenance</u>	
Major Funds:				
General Fund	\$1,670,647	\$1,859,897	\$124,987	\$3,655,531

The above mentioned Transfers From/To were used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments come due, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

- A. The Ohio Mid-Eastern Governments Association (OMEGA) is a ten-county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas Counties. OMEGA was formed to aid and assist the participating counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of Zanesville serves as the City's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a thirteen cent per capita membership fee based upon the most recent U.S. census. During 2006, OMEGA received \$3,838 from the City of Zanesville. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debt. Financial information can be obtained from the Ohio Mid-Eastern Governments Association, Cambridge.
- B. The Zanesville/Muskingum County Port Authority is a separate legal entity. The Authority is governed by a five member board and was created by a resolution of the City of Zanesville and Muskingum County. The Authority is incorporated as a non-profit corporation under the laws of the State of Ohio. The City appoints two members to the Authority board and Muskingum County appoints two members. The fifth member is appointed jointly by the City and the County. The Authority board adopts its own budget, is its own contracting authority, hires and fires its own staff, authorizes all expenditures and does not rely on the City or the County to finance deficits. The Authority derives its revenues from lease/rental income, interest income, contributions from the City and County, and other miscellaneous revenue sources. The City and County currently lease the Anchor Glass Facilities from the Authority, and sublet the facilities to the Anchor Glass Corporation. The lease is a twenty year lease which is in effect until 2008. The City and the County, by the terms of the lease agreement, make lease payments directly to National City Bank in conjunction with Anchor Glass which is used for the payment of Authority debt. The City and the County also provide operating subsidies to the Authority. During 2006, the City provided no operating subsidies to the Authority. Financial information is available from the Zanesville/Muskingum County Port Authority, Zanesville, Ohio.
- C. The Zanesville/Muskingum Conventions Facility Authority was created pursuant to State Statutes for the purpose of acquiring, constructing, equipping, and operating a convention facility in Muskingum County. The Authority operates under the direction of an eleven member appointed board of directors. The board consists of three members appointed by the Mayor of the City of Zanesville, six members appointed by Muskingum County, and two members appointed by remaining municipal corporations located in the County. The board exercises total control over the operation of the Authority including budgeting, appropriating, contracting, and designating management. The Authority receives funding in the form of a four percent hotel and motel excise tax for each transaction occurring in the boundaries of Muskingum County. The tax is levied and collected by the Authority directly. The City is prohibited from contributing to the operations of the Authority by State Law. During 2006 the Authority received \$384,572 from excise taxes and rental income. The Authority has no outstanding debt. Complete financial information can be obtained from the Zanesville/Muskingum Conventions Facility Authority, Zanesville, Ohio.
- D. The Zanesville Metropolitan Housing Authority was created in 1938, and currently operates pursuant to Revised Code Section 3735.27. The Authority is operated by a five member board. The City appoints two members and the County appoints three members. The board adopts their own appropriations, is their own contracting authority, hires and fires their own staff, authorizes all expenditures, and does not rely on the City or the County to finance deficits. The Authority receives funding from the federal government in the form of grants. All monies are received directly by the Authority in the Authority's name. Although the City appoints members to the board, the City is not financially accountable for the Authority, nor is the Authority fiscally dependent on the City. The Authority has no outstanding debt. Complete financial information can be obtained from the Zanesville Metropolitan Housing Authority, Zanesville, Ohio.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

- E. The Muskingum County Center for Seniors (Center) is a jointly governed organization which operates as a not-for-profit organization created under 501(c)(3) of the Internal Revenue Code. The Center provides various services to seniors, including transportation services, nutritional and physical fitness information and instruction, meals, and legal counseling. The Center is governed by a seven member board consisting of three members appointed by the Muskingum County Board of County Commissioners, three members appointed by the Mayor of the City of Zanesville, and one member appointed by the above appointed six members. The Center was the recipient of support from the Muskingum County Senior Services Levy. Additional revenue is provided through contracts with the Area Agency on Aging. Continued existence of the Center is not dependent upon the City's continued participation, no equity interest exists, and no debt is outstanding.

NOTE 18 - JOINT VENTURES

- A. Zanesville, South Zanesville and Springfield Joint Economic Development District (JEDD) was created contract during 2000 pursuant to Revised Code Section 715.77. The JEDD was created to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, the County, the City, the Village Township and the JEDD. The JEDD is operated by a three member board.

The City and the Village of South Zanesville appoint one member jointly, Springfield Township appoints one member, and these two JEDD members jointly appoint the third member of the JEDD. The JEDD's board exercises total control the budgeting, appropriation, contacting, and management. The JEDD's board, pursuant to Revised Code Section 715.74 has implemented a 1.7 percent income tax that will be used for the purposes of the JEDD. The continued existence of the JEDD is dependent upon the continued participation by the City, Village and Township; however, the City, Village or Township do not have an equity interest in the JEDD. The JEDD is not accumulating significant financial resources and is not experiencing fiscal distress that may cause an additional financial burden on the City. The financial activity of the JEDD is presented as an agency fund due to the City serving as fiscal agent. Complete financial information can be obtained from the Zanesville, South Zanesville, Springfield Joint Economic Development District, Zanesville, Ohio.

- B. Zanesville-Washington Township Joint Economic Development District (JEDD) was created contract during 2000 pursuant to Revised Code Section 715.77. The JEDD was created to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, the County, the City, the Village Township and the JEDD. The JEDD is operated by a three member board. The City and Washington Township each appoint one member and these two JEDD members jointly appoint the third member of the JEDD. The JEDD's board exercises total control the budgeting, appropriation, contacting, and management. The JEDD's board, pursuant to Revised Code Section 715.74 has implemented a 1.7 percent income tax that will be used for the purposes of the JEDD. The continued existence of the JEDD is dependent upon the continued participation by the City and Township; however, the City or Township does not have an equity interest in the JEDD. The JEDD is not accumulating significant financial resources and is not experiencing fiscal distress that may cause an additional financial burden on the City. The financial activity of the JEDD is presented as an agency fund due to the City serving as fiscal agent. Complete financial information can be obtained from the Zanesville, South Zanesville-Washington Joint Economic Development District, Zanesville, Ohio.
- C. Zanesville-Newton Township Joint Economic Development District (JEDD) was created contract during 2002 pursuant to Revised Code Section 715.77. The JEDD was created to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, the County, the City, the Township and the JEDD. The JEDD is operated by a three member board. The City and Newton Township each appoint one member and these two JEDD members jointly appoint the third member of the JEDD. The JEDD's board exercises total control the budgeting, appropriation, contacting, and management. The JEDD's board, pursuant to Revised Code Section 715.74 has implemented a 1.7 percent income tax that will be used for the purposes of the JEDD. The continued existence of the JEDD is dependent upon the continued participation by the City and Township; however, the City or Township does not have an equity interest in the JEDD. The JEDD is not accumulating significant financial resources and is not experiencing fiscal distress that may cause an additional financial burden on the City. The financial activity of the JEDD is presented as an agency fund due the City serving as fiscal agent. Complete financial information can be obtained from the Zanesville-Newton Township Joint Economic Development District, Zanesville, Ohio.

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 19 - INSURANCE PURCHASING POOL

Ohio Rural Water Association Workers' Compensation Group Rating Plan - The City participates in the Ohio Rural Water Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Board of directors. The board is a self-appointing board that coordinates the program. Each year, the participating members pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20 - RELATED PARTY TRANSACTIONS

The South East Area Transit Authority, a discretely presented component unit of the City of Zanesville, received contributions from the City for facilities, certain equipment, transportation and salaries for administrative implementation and supervision of its programs. These contributions are normally reflected as "Contributions from Local Governments" and "Operating Expenses" in the basic financial statements. In 2006, \$216,660 was the amount contributed by the City of Zanesville, Muskingum County, Guernsey County, the Village of South Zanesville, and the Village of Byesville.

NOTE 21 - CONTINGENCIES

A. Grants

The City received financial assistance from 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 is 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 adverse effect on the overall financial position of the City at December 31, 2006.

B. Litigation

Claims and lawsuits are pending against the City of Zanesville. Based upon information provided by the County's legal counsel, any potential liability and effect on the financial statements, if any, is not determinable at this time.

NOTE 22 - CONTRACT COMMITMENTS

Vendor	Contract Amount	Amount Paid	Balance @ 12/31/06
Burch Biowave	\$1,088,870	\$871,096	\$217,774
Shelly and Sands	425,009	296,732	128,277
Shelly and Sands (Citywide Overlays)	350,699	0	350,699
Lucas Truck Sales	100,559	0	100,559

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES

NOTE 1 - DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY

Description of the Authority

The South East Area Transit Authority (hereinafter referred to as the “Authority”) was created pursuant to Sections 306.30 through 306.54 of the Ohio Revised Code for the purpose of providing public transportation in the City of Zanesville, Muskingum County, City of Cambridge and Guernsey County, as well as the south east Ohio area. The Authority is an independent political subdivision of the State of Ohio and thus is not subject to federal or state income taxes.

At December 31, 2006, the Authority had 44 full-time equivalent employees. Approximately 73% of the Authority’s employees at December 31, 2006 are subject to a collective bargaining agreement expiring on March 31, 2008.

Description of the Reporting Entity

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit’s board and either (1) the reporting entity’s ability to impose its will over the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any entities.

Under the provisions of GASB Statement No. 14, the Authority is considered to be a component unit of the City of Zanesville. The Authority is managed by a ten member Board of Trustees, who establishes policies and sets direction for the management of the Authority. Six of the members are appointed by the Mayor of Zanesville with the consent of City Council, two members are appointed by the Muskingum County Commissioners, and the remaining two members are appointed by the Guernsey County Commissioners and the Mayor of South Zanesville. Board members serve overlapping three-year terms.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and enterprise funds, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Authority has elected not to apply FASB statements and interpretations issued on or before November 30, 1989, to its business-type activities and enterprise funds. The most significant of the Authority’s accounting policies are described below.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income, financial position and cash flows. All transactions are accounted for in a single enterprise fund.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

Budgetary Accounting and Control

The Authority's annual budget is prepared on the accrual basis of accounting as permitted by law. The Authority maintains budgetary control by not permitting total expenditures to exceed total appropriations without approval of the Board of Trustees.

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in checking accounts and are stated at cost, which approximates market value. Cash and cash equivalents represent the funds that are used for the general operations. For purposes of the statement of cash flows, the Authority considers all highly liquid instruments with a maturity of three months or less at the time they are purchased to be cash and cash equivalents.

Recognition of Receivables and Revenue

Passenger fares are recorded as revenue at the time services are provided and revenues pass through the fare box.

Grants and assistance revenues are received from reimbursable, nonreimbursable, and entitlement type grant programs. These grant programs involve transactions that are categorized as either government-mandated or voluntary nonexchange transactions. Grants and assistance revenues from government-mandated and voluntary nonexchange transactions are recorded as a receivable and nonoperating revenue when all eligibility requirements are met. Grants and assistance revenues received before the eligibility requirements are met are deferred.

Inventory of Materials and Supplies

Inventory items are stated at the lower of the cost or market. Inventory generally consists of maintenance parts and supplies for rolling stock and other transportation equipment.

Property and Depreciation

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs are charged to operations as incurred. Improvements and interest are capitalized and depreciated over the remaining useful lives of the related properties, with the exception of land which is nondepreciable. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

<u>Description</u>	<u>Years</u>
Buildings	20
Transportation Vehicles	5-12
Furniture and Fixtures	3 - 15
Other Equipment	5 - 15

Depreciation and losses on the disposal of fixed assets acquired or constructed through grants externally restricted for capital acquisition are closed to the appropriate contributed capital account. Net income (loss) adjusted by the amount of depreciation (and losses) on fixed assets acquired in this manner is closed to net assets.

Restricted Assets

Restricted assets consist of monies and other resources, the use of which is legally restricted for capital acquisition and construction.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

Net Assets

Equity displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Compensated Absences

The Authority accrues vacation benefits as earned by its employees. Unused vacation benefits are paid to the employee upon separation from the Authority. Vacation days are limited to a maximum of twenty days. Unused sick leave benefits lapse upon an employee's separation from the Authority.

Estimates

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

NOTE 3 - CASH AND INVESTMENTS

The investments and deposits of the Authority are governed by the provisions of the Ohio Revised Code. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest in monies in certificates of deposits, saving accounts, money market accounts, the State Treasurer's investment pool (STAROhio) and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository for a period not exceeding 30 days.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with a market value equal to 105% of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The market value of the securities subject to a repurchase agreement must exceed the value of the principal by 2% and be marked to market daily. State law does not require that security maintained for public deposits and investments be held in the Authority's name.

The Authority is prohibited from investing in any financial instrument contract, or obligation whose value or return is based upon or linked to another asset or index, or both, separate from the financial instrument, contract, or obligation itself (commonly known as a "derivative"). The Authority is also prohibited from investing in reverse repurchase agreements.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority'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 Authority.

The carrying amount of the Authority's deposits was \$162,751 at December 31, 2006. Based on the criteria described in GASB Statement 40, "Deposit and Investment Risk Disclosures", as of December 31, 2006, \$127,148 of the Authority's bank balance of \$227,148 was exposed to custodial risk as discussed above while \$100,000 was covered by Federal Deposit Insurance. The \$127,148 exposed to custodial risk was collateralized with securities held by the Authority or its agency in the Authority's name.

Investments

The Authority held no investments at December 31, 2006.

NOTE 4 - ACCOUNTS RECEIVABLE

Receivables at December 31, 2006 consisted of accounts (billings for user charges services) and intergovernmental grants. All receivables are considered collectible in full therefore, an allowance for uncollectible accounts receivable is not considered necessary.

A summary of the principal items of intergovernmental receivables at December 31, 2006 consisted of the following amounts:

Federal Operating Assistance Receivable	\$44,420
State Operating Assistance Receivable	29,670
	<hr/>
	\$74,090
	<hr/> <hr/>

NOTE 5 – NOTES PAYABLE

In 2006, the Authority obtained a line of credit from a local bank in the amount of \$250,000, to be used as a source of short-term operating funds. The loan matures on December 7, 2007 and is renewable for an additional year. The balance at December 31, 2006 is \$220,000. The loan is secured by the assets of the Authority. The current interest rate is 8.25%. A member of the Board of Trustees is an officer of the bank.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

NOTE 6 - CAPITAL ASSETS

A summary of capital asset activity during the 2006 fiscal year follows:

<u>Asset Type:</u>	Balance at 12/31/2005	Additions	Deletions	Balance at 12/31/2006
Land	\$334,255	\$0	\$0	\$334,255
Buildings	1,619,031	16,667	0	1,635,698
Buses and Other Vehicles	2,110,885	194,676	(56,870)	2,248,691
Furniture, Fixtures and Equipment	502,843	0	(800)	502,043
Total Capital Assets	4,567,014	211,343	(57,670)	4,720,687
 <i>Accumulated Depreciation:</i>				
Buildings	(676,741)	(81,204)	0	(757,945)
Buses and Other Vehicles	(1,144,506)	(220,322)	56,870	(1,307,958)
Furniture, Fixtures and Equipment	(483,085)	(34,203)	800	(516,488)
Accumulated Depreciation	(2,304,332)	(335,729)	57,670	(2,582,391)
Capital Assets, Net of Accumulated Depreciation	<u>\$2,262,682</u>	<u>(\$124,386)</u>	<u>\$0</u>	<u>\$2,138,296</u>

NOTE 7 - DEFINED BENEFIT PENSION PLANS

The Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. 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, 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 and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and amended by state statute and are contained in Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800- 222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The employee contribution rates are 9.0% for employees other than law enforcement and for 2006, the Authority is required to contribute 13.70%. The Authority's required contributions to OPERS for the years ending December 31, 2006, 2005 and 2004 were \$164,405, \$101,507, and \$154,313, respectively; 92.15% has been contributed for 2006, and 100% has been contributed for 2005 and 2004. Of the 2006 amount, \$12,907 was unpaid at December 31, 2006 and is recorded as a liability.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

NOTE 8 - POSTEMPLOYMENT BENEFITS

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 benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5 to 6 percent annually for the next nine years and 4 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$11.1 billion. 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 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 funds to be allocated to the health care plan.

NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE

Grants, reimbursements and special fare assistance in the statement of revenues, expenses and changes in equity for the year ended December 31, 2005 (the most recent information available) consist of the following:

<u>Federal</u>	
FTA Capital Assistance	\$141,696
FTA Operating Assistance	966,506
Total	<u><u>\$1,108,202</u></u>

CITY OF ZANESVILLE, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

State

ODOT Operating Assistance	\$366,943
ODOT Elderly Fare Assistance	17,712
	\$384,655
Total	\$384,655

Local

City of Zanesville	\$160,000
Village of South Zanesville	4,660
Village of Byesville	2,000
Muskingum County	40,000
Guernsey County	10,000
	\$216,660
Total	\$216,660

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, flood and earthquake, errors and omission, employment related matters, injuries to employees and employee theft and fraud. The Authority joined together with certain other transit authorities in the State to form the Ohio Transit Insurance Pool Association, Inc. (OTIP). OTIP is a joint self-insurance pool pursuant to Section 2744.081 of the Ohio Revised Code, currently operating as a common risk management and insurance program for ten member transit agencies. The Authority pays an annual premium to OTIP for its general insurance coverage and makes quarterly payments into a loss and administration fund pursuant to OTIP's bylaws. The Agreement of Formation of the OTIP provides that OTIP will be self-sustaining through member premiums and will reinsure through commercial companies for property damage and claims in excess of \$250,000 and all liability claims in excess of \$250,000 for each insured occurrence. The Authority is responsible for the first \$1,000 of any claim or occurrence and amounts in excess of \$10 million for liability claims.

The Authority continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – CONTINGENCIES

The Authority receives a substantial amount of support from federal, state, and local governments. A significant reduction in the level of this support, if such were to occur, would have a material effect on the Authority's programs and activities.

CITY OF ZANESVILLE, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 23 – COMPONENT UNIT NOTES (Continued)

NOTE 12 – INVOLUNTARY CONVERSION

In 2006, one of the Authority's buses was totaled in an accident. The insurance proceeds of \$40,000 are restricted by the terms of a capital grant received from the Ohio Department of Transportation (ODOT) that the Authority used towards the original purchase of the bus. The \$40,000 is included on the balance sheet as Cash and Cash equivalents and Funds Held for Bus Purchase. Management plans to use these funds towards the purchase of a replacement bus during 2007.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The Authority had the following prior period adjustments for 2005:

The Authority previously failed to report a liability for accrued sick Pay. The liability and associated expense was \$54,362 for 2005.	\$54,362
The Authority overstated accounts receivable for an operating grant from ODOT. ODOT reduced the amount of the original grant due to a shortage of matching funds obtained by the Authority.	<u>6,534</u>
Total Prior Period Adjustments	<u>\$60,896</u>

These prior period adjustments had the effect of overstating the beginning net assets for 2006 by \$60,896.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

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

City of Zanesville
Muskingum County
401 Market Street
Zanesville, Ohio 43701

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Zanesville, Muskingum County 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 June 25, 2007. We did not audit the financial statements of South East Area Transit Authority, which is included as a discretely presented component unit in the City of Zanesville's financial statements. Those financial statements were audited by other auditors, following *Government Auditing Standards*, and their report thereon has been furnished to us. Our opinion, insofar as it relates to the component unit, is based solely on the report of other auditors. 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 of Zanesville's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined 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 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 City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Zanesville'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 no instances of noncompliance or other matters that we must report under *Government Auditing Standard*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated June 25, 2007.

This report is intended for the information of the Mayor, City Council, management, Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 25, 2007

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

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

City of Zanesville
Muskingum County
401 Market Street
Zanesville, Ohio 43701

Compliance

We have audited the compliance of City of Zanesville 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 its major federal program for the year ended December 31, 2006. City of Zanesville'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 City of Zanesville management. Our responsibility is to express an opinion on City of Zanesville'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 City of Zanesville'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 City of Zanesville's compliance with those requirements.

In our opinion, the City of Zanesville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

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

Report on Compliance with OMB A-133
Page 2

This report is intended for the information of the Mayor, City Council, management, the Auditor of State, federal award agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 25, 2007

**CITY OF ZANESVILLE
MUSKINGUM COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION 505**

1. Summary of Auditor's Results

(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 reportable control weakness conditions reported at the financial statement level (GAGAS)?	NO
(d)(1)(iii)	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	NO
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	NO
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section. 510?	NO
(d)(1)(vii)	Major Programs:	Airport Improvement Grant; CFDA #20.106
(d)(1)(viii)	Dollar Threshold: Type A/B Programs:	Type A: >\$300,000; Type B: All Others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS

NONE

3. Findings and Questioned Costs for Federal Awards

NONE

**CITY OF ZANESVILLE
MUSKINGUM COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/ Sub-Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
(pass through Ohio Department of Development)				
Community Development Block Grant	A-F-04-204-1	14.228	150,738	150,739
	A-5-05-204-1		180,517	180,517
	A-F-06-204-1		8,250	8,250
	A-C-06-204-1		129,780	80,583
	A-C-04-204-1		131,278	131,278
			<u>600,563</u>	<u>551,367</u>
HOME Investment Partnership Program	A-C-04-204-2	14.239	<u>49,407</u>	<u>49,407</u>
Total U.S. Department of Housing and Urban Development			649,970	600,774
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Direct Award				
Airport Improvement Program	3-39-0097-0705	20.106	<u>512,269</u>	<u>341,543</u>
Total U.S. Department of Transportation			512,269	341,543
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Pass through Ohio Department of Justice				
Local law Enforcement Block Grant	04-LB-BX-1394	16.592	-	13,298
	05-DJ-BX-1126		<u>15,504</u>	<u>11,550</u>
			15,504	24,848
Public Safety Grant	n/a	16.710	<u>59,133</u>	<u>59,133</u>
Total U.S. Department of Justice			74,637	83,981
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
Pass through Ohio Department of Education				
Summer Food Program	n/a	10.559	<u>59,287</u>	<u>68,970</u>
Total U.S. Department of Health and Human Services			59,287	68,970
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Direct Award				
Assistance to Firefighters Grant	EMW-04-F6-11874	97.044	<u>81,489</u>	<u>46,756</u>
Total U.S. Department of Homeland Security			<u>81,489</u>	<u>46,756</u>
Total Federal Awards Expenditures			<u><u>1,377,652</u></u>	<u><u>1,142,024</u></u>

See notes to Schedule of Federal Awards Expenditures.

CITY OF ZANESVILLE
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTES A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the City’s federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

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

NOTE C - LOANS OUTSTANDING

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households. The U.S. Department of Housing and Urban Development (HUD) grants the money for these loans to the City, passed through the State Department of Development. The initial loan of this money is recorded as a disbursement on the schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD. Significant delinquencies existing at December 31, 2006 were \$22,937 in principal and related interest for outstanding Housing Program loans.

The City had the following loan balances outstanding at December 31, 2006:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
CDBG Economic Development Revolving Loan Fund Program	14.228	\$ 146,391
CDBG Housing Program	14.228	65,342
Total		<u>\$ 211,733</u>



Mary Taylor, CPA
Auditor of State

CITY OF ZANESVILLE

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 9, 2007**