

CITY OF ZANESVILLE
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

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



Dave Yost • Auditor of State

Mayor and 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 through December 31, 2012. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 24, 2013

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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

To the Mayor and City Council:

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund, Police Expenditure Fund, and Fire Operating Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the financial statements, during 2012, the City adopted new accounting guidance in Government Accounting Standards Board Statement No. 63, *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No.66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any assurance.

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements, taken as a whole. The Schedule of Expenditures of Federal Awards present additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is management's responsibility, and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2013, on our consideration of the City of Zanesville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 20, 2013

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City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

The discussion and analysis of the City of Zanesville's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net position increased \$6,676,618. Net position of governmental activities increased \$3,961,376, while the business-type activities increased \$2,715,242.
- General governmental revenues accounted for \$20,563,278 in revenue or 77% of all revenues in governmental activities. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$6,147,234 or 23% of total revenues of \$26,710,512.

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

Reporting the City of Zanesville as a Whole

Statement of Net Position 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 asks the question, "How did we do financially during 2012?" The Statement of Net Position 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 position 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.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

In the Statement of Net Position 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 Sanitation, Sewer, and Water Funds.

Business-Type Activities – Sanitation, 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 depreciation associated with the facilities.

Reporting the City of Zanesville's Most Significant Funds

Fund Financial Statements

Fund financial statements begin on page 14. 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 Expenditure, Fire Operating, Sanitation, 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 Position 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.

The City of Zanesville as a Whole

Recall that the Statement of Net position looks at the City as a whole. Table 1 provides a summary of the City's net position for 2012 compared to 2011.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current and Other Assets	\$17,868,263	\$15,184,948	\$6,075,833	\$5,773,980	\$23,944,096	\$20,958,928
Capital Assets, Net	19,913,402	20,338,929	67,236,806	65,061,448	87,150,208	85,400,377
<i>Total Assets</i>	<u>37,781,665</u>	<u>35,523,877</u>	<u>73,312,639</u>	<u>70,835,428</u>	<u>111,094,304</u>	<u>106,359,305</u>
Liabilities						
Current and Other Liabilities	2,668,053	2,300,141	812,955	995,913	3,481,008	3,296,054
Long-term Liabilities	7,376,631	7,769,100	29,684,723	29,733,025	37,061,354	37,502,125
<i>Total Liabilities</i>	<u>10,044,684</u>	<u>10,069,241</u>	<u>30,497,678</u>	<u>30,728,938</u>	<u>40,542,362</u>	<u>40,798,179</u>
Deferred Inflows of Resources						
Property Taxes	1,072,117	1,023,310	0	0	1,072,117	1,023,310
Net Position						
Net Investment in						
Capital Assets	14,193,919	12,536,039	37,991,757	36,957,642	52,185,676	49,493,681
Restricted	5,490,053	4,714,202	0	0	5,490,053	4,714,202
Unrestricted	6,980,892	5,453,247	4,823,204	3,142,077	11,804,096	8,595,324
<i>Total Net Position</i>	<u>\$26,664,864</u>	<u>\$22,703,488</u>	<u>\$42,814,961</u>	<u>\$40,099,719</u>	<u>\$69,479,825</u>	<u>\$62,803,207</u>

Total assets increased \$4,734,999. Governmental activities increased \$2,257,788, while the business-type activities increased \$2,477,211. Total liabilities decreased \$255,817. Governmental activities decreased \$24,557 while the business-type activities decreased \$231,260.

For governmental activities, capital assets decreased \$425,527. Long-term liabilities decreased \$392,469.

For business-type activities, capital assets increased \$2,175,358 primarily due to the acquisition and construction of capital assets. Long-term liabilities decreased \$48,302 due to the repayment of loans exceeding the new loans during the year.

Table 2 shows the changes in net position for the year ended December 31, 2012, and comparisons to 2011.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

(Table 2)
 Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues						
Charges for Services	\$2,299,437	\$2,024,003	\$13,855,512	\$13,519,501	\$16,154,949	\$15,543,504
Operating Grants, Contributions and Interest Capital Grants and Contributions	2,916,579	2,799,793	202,528	130,573	3,119,107	2,930,366
Total Program Revenues	6,147,234	5,640,881	14,058,040	13,650,074	20,205,274	19,290,955
General Revenues						
Property Taxes	1,178,752	1,039,681	0	0	1,178,752	1,039,681
Income Tax	15,047,735	14,117,736	0	0	15,047,735	14,117,736
Payments in Lieu of Taxes	575,323	606,855	0	0	575,323	606,855
Franchise Tax	328,500	396,603	0	0	328,500	396,603
Grants and Entitlements	2,800,821	3,332,021	0	0	2,800,821	3,332,021
Unrestricted Contribution	332,614	0	0	0	332,614	0
Gain on Sale of Capital Assets	20,105	26,553	0	843	20,105	27,396
Investment Earnings	129,953	95,054	1,346	1,113	131,299	96,167
Other	149,475	93,353	114,599	55,188	264,074	148,541
Total General Revenues	20,563,278	19,707,856	115,945	57,144	20,679,223	19,765,000
<i>Total Revenues</i>	<i>26,710,512</i>	<i>25,348,737</i>	<i>14,173,985</i>	<i>13,707,218</i>	<i>40,884,497</i>	<i>39,055,955</i>
Program Expenses						
General Government:						
Legislative and Executive	3,966,033	4,170,779	0	0	3,966,033	4,170,779
Court	490,367	474,125	0	0	490,367	474,125
Security of Persons and Property:						
Police	7,598,241	7,215,421	0	0	7,598,241	7,215,421
Fire	5,022,244	5,027,385	0	0	5,022,244	5,027,385
Other	137,215	327,111	0	0	137,215	327,111
Public Health Services	352,041	437,516	0	0	352,041	437,516
Community Environment	1,308,457	1,339,688	0	0	1,308,457	1,339,688
Transportation	2,852,925	5,724,606	0	0	2,852,925	5,724,606
Leisure Time Activities	753,395	794,034	0	0	753,395	794,034
Interest and Fiscal Charges	268,218	229,668	0	0	268,218	229,668
Sanitation	0	0	1,444,521	1,589,405	1,444,521	1,589,405
Sewer	0	0	5,683,142	5,942,902	5,683,142	5,942,902
Water	0	0	4,331,080	3,149,445	4,331,080	3,149,445
<i>Total Program Expenses</i>	<i>22,749,136</i>	<i>25,740,333</i>	<i>11,458,743</i>	<i>10,681,752</i>	<i>34,207,879</i>	<i>36,422,085</i>
<i>Increase Before Transfers</i>	<i>3,961,376</i>	<i>(391,596)</i>	<i>2,715,242</i>	<i>3,025,466</i>	<i>6,676,618</i>	<i>2,633,870</i>
Transfers	0	(60,895)	0	60,895	0	0
<i>Increase (Decrease) in Net Position</i>	<i>3,961,376</i>	<i>(452,491)</i>	<i>2,715,242</i>	<i>3,086,361</i>	<i>6,676,618</i>	<i>2,633,870</i>
Net Position Beginning of Year	22,703,488	23,155,979	40,099,719	37,013,358	62,803,207	60,169,337
Net Position End of Year	\$26,664,864	\$22,703,488	\$42,814,961	\$40,099,719	\$69,479,825	\$62,803,207

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Governmental Activities

Several revenue sources fund our governmental activities, with the City income tax being the biggest contributor. The income tax rate is 1.9 percent. General revenues from grants and entitlements, such as local government funds, are also a large revenue generator. The City monitors both of these revenue sources very closely for fluctuations because the income tax and intergovernmental revenue represent 56 and 10 percent, respectively, of all revenues in the governmental activities.

Intergovernmental revenues (operating and capital grants) and contributions accounted for 11 percent of all revenues. These revenues are not generated from the City's own resources. Such revenues are often unpredictable and accompanied by administrative requirements. The lower this percentage the better in regards to independence.

The largest activity of the City is the general government – legislative and executive program. Included in this program is the activity of the following departments: Council, Mayor, Auditor, Treasurer, Income Tax, Law Director, Engineer, Equipment and Utility Maintenance, Planning, Service Administration, Information Systems, and Land, Buildings, and Parks. This program is primarily funded with general revenues.

Security of persons and property is another major activity of the City, generating 56% of the governmental expenses. During 2012, expenses for police and fire operations amounted to \$7,598,241 and \$5,022,244, respectively. These activities are, for the most part, funded by the municipal income tax. The City attempts to supplement the income and activities of the police department with grants to enable the police department to widen the scope of its activities.

Business-Type Activities

The City's business-type activities consist of the sanitation, sewer, and water departments. The major source of revenue for these funds is charges for services.

The increase in net position prior to capital contributions for the Sewer and Water funds is due primarily to a rate increase, which were partially offset by increased operating costs due to the water and wastewater treatment plant expansions.

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 \$26,041,713 and expenditures of \$24,514,646.

The fund balance of the General Fund increased \$718,312. The General Fund's Unassigned Fund Balance of \$3,088,691 represented 24% of current year expenditures. Most of this balance remains in the City's treasury and is invested.

The fund balance of the Police Expenditure Fund increased \$460,765. The Police Expenditure Fund had a restricted fund balance of \$1,368,827 at year end.

The fund balance of the Fire Operating Fund increased \$304,894. The Fire Operating Fund had a restricted fund balance of \$581,709 at year end.

City of Zanesville, Ohio
Management's Discussion and Analysis
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During 2012, the Sanitation Fund had operating revenues of \$1,620,198 and operating expenses of \$1,437,749. The Sewer Fund had operating revenues of \$7,111,086 and operating expenses of \$4,949,537. The Water Fund had operating revenues of \$5,124,558 and operating expenses of \$3,992,863. The major expenses for these funds are salaries and wages and depreciation on capital assets.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From time to time during the year, the fund's budget may be amended as needs or conditions change.

During the course of 2012, the City amended its General Fund budget several times. Since the legal level of budgetary control is at the object level, any budgetary modifications at this level may only be made by resolution of the Council.

All recommendations for a budget change are given to the City Auditor, who processes them when there are sufficient resources to make such a change, and are then sent to the Finance Committee of Council for review before going to the whole Council for Ordinance enactment on the change. Most of the expenditure changes are presented to the City Auditor by the Administration.

In the event that additional revenues are assured, the City Auditor will make a change in the estimated resources and report same to the County Budget Commission. When the estimated resources are increased, then and only then are the increased resources allowed to be appropriated through Council action.

Original budgeted revenues were increased \$965,532 with the largest increases in the municipal income tax and donations. Actual revenues were under the final budget in the amount of \$219,259. The original appropriations were increased \$819,628, however, the actual expenditures were \$1,277,043 less than the original budget.

The funds of the City are closely monitored and, currently, historical analysis of trends in revenues and expenditures are used to project future revenues and expenditures. In light of the tighter picture of the City's finances, those holding financial positions are using a zero based approach to our appropriations and, consequentially, many adjustments are needed to be made on a bimonthly schedule that coincides with Council actions.

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
Unaudited

Capital Assets and Debt Administration

Capital Assets

Table 3 shows year 2012 balances compared to 2011.

(Table 3)
 Capital Assets at December 31, 2012

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$1,188,231	\$1,188,231	\$233,184	\$233,184	\$1,421,415	\$1,421,415
Buildings and Improvements	5,422,593	5,702,666	24,464,191	14,699,776	29,886,784	20,402,442
Machinery and Equipment	394,825	450,380	7,410,040	1,732,005	7,804,865	2,182,385
Vehicles	1,139,660	492,817	223,222	262,615	1,362,882	755,432
Infrastructure	8,147,324	6,860,603	34,652,769	30,765,452	42,800,093	37,626,055
Construction in Progress	3,620,769	3,892,266	253,400	17,361,645	3,874,169	21,253,911
Totals	\$19,913,402	\$18,586,963	\$67,236,806	\$65,054,677	\$87,150,208	\$83,641,640

The City's capital assets for governmental and business-type activities as of December 31, 2012, were \$87,150,208 (net of accumulated depreciation). This includes land, buildings and improvements, machinery and equipment, vehicles, infrastructure, and construction in progress.

Note 10 (Capital Assets) provides capital asset activity during 2012.

Debt

Table 4 below is a summary of the City's debt obligations:

(Table 4)
 Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
1986 Ohio Government Building Bonds	\$0	\$40,000	\$0	\$0
2003 Capital Facilities Refunding Bonds	1,025,500	1,179,500	0	0
2010 Street Improvement Bonds	1,060,000	1,110,000	0	0
OPWC Bridge Replacement Loan	86,423	0	0	0
Ohio Department of Transportation Loan	3,542,158	3,803,121	0	0
Capital Facilities Refunding Water Bond	0	0	439,500	505,500
OPWC Water Loan	0	0	74,823	111,132
OWDA Water Loans	0	0	13,177,466	11,742,577
OWDA Sewer Loans	0	0	15,553,260	16,937,099
Totals	\$5,714,081	\$6,132,621	\$29,245,049	\$29,296,308

City of Zanesville, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2012
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The total amount of general obligation indebtedness outstanding at any one time shall not exceed 10.5% of the actual value of taxable real and personal property in the City. The City's overall debt limit at December 31, 2012, is \$34,331,439.

Additional information on the City's debt can be found in Notes 16 of this report.

Current Financial Issues

Over the past two to three 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 balances built up from the good economic times of the mid to late 1990s.

Contacting the City Auditor's Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Margo Moyer, Zanesville City Auditor, 401 Market Street, Zanesville, Ohio 43701, 740-455-0673.

City of Zanesville, Ohio
Statement of Net Position
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$8,468,848	\$2,973,556	\$11,442,404
Cash and Cash Equivalents in Segregated Accounts	24,249	62,815	87,064
Investments	40,000	0	40,000
Accounts Receivable	136,539	2,086,961	2,223,500
Accrued Interest Receivable	1,409	48	1,457
Intergovernmental Receivable	2,419,686	0	2,419,686
Internal Balances	(36,993)	36,993	0
Municipal Income Tax Receivable	2,661,162	0	2,661,162
Loans Receivable	105,459	0	105,459
Special Assessments Receivable	2,237,682	107,056	2,344,738
Materials and Supplies Inventory	391,578	776,916	1,168,494
Prepaid Items	53,519	31,488	85,007
Property Taxes Receivable	1,365,125	0	1,365,125
Non-Depreciable Capital Assets	4,809,000	486,584	5,295,584
Depreciable Capital Assets, Net	15,104,402	66,750,222	81,854,624
<i>Total Assets</i>	<u>37,781,665</u>	<u>73,312,639</u>	<u>111,094,304</u>
Liabilities			
Accounts Payable	563,161	213,914	777,075
Contracts Payable	262,624	0	262,624
Accrued Wages Payable	574,718	181,213	755,931
Accrued Interest Payable	15,300	1,367	16,667
Intergovernmental Payable	799,342	115,521	914,863
Matured Compensated Absences Payable	34,406	0	34,406
Retainage Payable	26,202	0	26,202
Claims Payable	392,300	0	392,300
Customer Deposits Payable	0	300,940	300,940
Long-Term Liabilities:			
Due Within One Year	1,708,322	2,290,095	3,998,417
Due In More Than One Year	5,668,309	27,394,628	33,062,937
<i>Total Liabilities</i>	<u>10,044,684</u>	<u>30,497,678</u>	<u>40,542,362</u>
Deferred Inflows of Resources			
Property Taxes	1,072,117	0	1,072,117
Net Position			
Net Investment in Capital Assets	14,193,919	37,991,757	52,185,676
Restricted for:			
Street	703,913	0	703,913
Cemetery	72,632	0	72,632
Community Development	1,002,545	0	1,002,545
Jail Operations	732,090	0	732,090
Police Operations	1,060,780	0	1,060,780
Fire Operations	263,956	0	263,956
Court Operations	422,264	0	422,264
Police and Fire Pension	79,459	0	79,459
Capital Outlay	340,334	0	340,334
Cemetery - Non-expendable	665,189	0	665,189
Unclaimed Monies	7,545	0	7,545
Other Purposes	139,346	0	139,346
Unrestricted	6,980,892	4,823,204	11,804,096
<i>Total Net Position</i>	<u>\$26,664,864</u>	<u>\$42,814,961</u>	<u>\$69,479,825</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Activities
For the Year Ended December 31, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government:							
Legislative and Executive	\$3,966,033	\$1,315,345	\$78,008	\$0	(\$2,572,680)	\$0	(\$2,572,680)
Court	490,367	417,056	0	0	(73,311)	0	(73,311)
Security of Persons and Property:							
Police	7,598,241	64,658	77,161	8,000	(7,448,422)	0	(7,448,422)
Fire	5,022,244	12,768	11,389	694,463	(4,303,624)	0	(4,303,624)
Other	137,215	0	0	0	(137,215)	0	(137,215)
Public Health Services	352,041	77,826	40,894	0	(233,321)	0	(233,321)
Community Environment	1,308,457	32,744	582,575	0	(693,138)	0	(693,138)
Transportation	2,852,925	136,024	2,025,545	228,755	(462,601)	0	(462,601)
Leisure Time Activities	753,395	243,016	101,007	0	(409,372)	0	(409,372)
Interest and Fiscal Charges	268,218	0	0	0	(268,218)	0	(268,218)
<i>Total Governmental Activities</i>	<u>22,749,136</u>	<u>2,299,437</u>	<u>2,916,579</u>	<u>931,218</u>	<u>(16,601,902)</u>	<u>0</u>	<u>(16,601,902)</u>
Business-Type Activities							
Sanitation	1,444,521	1,620,093	4,000	0	0	179,572	179,572
Sewer	5,683,142	7,111,086	195,633	0	0	1,623,577	1,623,577
Water	4,331,080	5,124,333	2,895	0	0	796,148	796,148
<i>Total Business-Type Activities</i>	<u>11,458,743</u>	<u>13,855,512</u>	<u>202,528</u>	<u>0</u>	<u>0</u>	<u>2,599,297</u>	<u>2,599,297</u>
<i>Total</i>	<u>\$34,207,879</u>	<u>\$16,154,949</u>	<u>\$3,119,107</u>	<u>\$931,218</u>	<u>(16,601,902)</u>	<u>2,599,297</u>	<u>(14,002,605)</u>
General Revenues							
Property Taxes Levied for:							
General Purposes					966,449	0	966,449
Police and Fire Pension					212,303	0	212,303
Income Taxes Levied for:							
General Purposes					7,841,419	0	7,841,419
Police Operations					4,003,498	0	4,003,498
Jail Operations					1,602,312	0	1,602,312
Fire Operations					1,600,506	0	1,600,506
Payments in Lieu of Taxes					575,323	0	575,323
Franchise Taxes					328,500	0	328,500
Grants and Entitlements not Restricted to Specific Programs					2,800,821	0	2,800,821
Unrestricted Contribution					332,614	0	332,614
Gain on Sale of Capital Assets					20,105	0	20,105
Investment Earnings					129,953	1,346	131,299
Other					149,475	114,599	264,074
<i>Total General Revenues</i>					<u>20,563,278</u>	<u>115,945</u>	<u>20,679,223</u>
<i>Change in Net Position</i>					<u>3,961,376</u>	<u>2,715,242</u>	<u>6,676,618</u>
<i>Net Position Beginning of Year - Restated (See Note 4)</i>					<u>22,703,488</u>	<u>40,099,719</u>	<u>62,803,207</u>
<i>Net Position End of Year</i>					<u>\$26,664,864</u>	<u>\$42,814,961</u>	<u>\$69,479,825</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio

Balance Sheet

Governmental Funds

December 31, 2012

	<u>General</u>	<u>Police Expenditure</u>	<u>Fire Operating</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$2,281,289	\$1,253,548	\$763,226	\$3,205,577	\$7,503,640
Cash and Cash Equivalents in Segregated Accounts	8,274	0	0	15,975	24,249
Restricted Cash	7,545	0	0	0	7,545
Investments	0	0	0	40,000	40,000
Receivables:					
Accrued Interest	1,076	0	0	333	1,409
Accounts	100,902	0	7,000	28,627	136,529
Interfund	4,417	0	0	59,483	63,900
Intergovernmental	1,084,671	0	0	1,310,247	2,394,918
Municipal Income Tax	1,400,568	700,152	280,221	280,221	2,661,162
Taxes	1,119,210	0	0	245,915	1,365,125
Loans	0	0	0	105,459	105,459
Special Assessments	2,236,549	0	0	1,133	2,237,682
Materials and Supplies Inventory	128	4,792	0	122,377	127,297
Prepaid Items	21,331	9,265	8,466	13,714	52,776
Total Assets	<u>\$8,265,960</u>	<u>\$1,967,757</u>	<u>\$1,058,913</u>	<u>\$5,429,061</u>	<u>\$16,721,691</u>
Liabilities					
Accounts Payable	\$469,319	\$8,961	\$2,600	\$55,870	\$536,750
Accrued Wages Payable	116,430	187,390	147,817	104,154	555,791
Contracts Payable	0	0	0	262,624	262,624
Matured Compensated Absences Payable	32,373	2,033	0	0	34,406
Retainage Payable	0	0	0	26,202	26,202
Interfund Payable	20,980	45,193	11,809	164,032	242,014
Intergovernmental Payable	196,777	253,769	271,481	65,245	787,272
Total Liabilities	<u>835,879</u>	<u>497,346</u>	<u>433,707</u>	<u>678,127</u>	<u>2,445,059</u>
Deferred Inflows of Resources					
Property Taxes	877,975	0	0	194,142	1,072,117
Unavailable Revenue	3,162,506	87,527	35,031	1,076,887	4,361,951
Total Deferred Inflows of Resources	<u>4,040,481</u>	<u>87,527</u>	<u>35,031</u>	<u>1,271,029</u>	<u>5,434,068</u>
Fund Balances					
Nonspendable	29,004	14,057	8,466	906,739	958,266
Restricted	0	1,368,827	581,709	2,489,794	4,440,330
Committed	0	0	0	142,854	142,854
Assigned	271,905	0	0	0	271,905
Unassigned	3,088,691	0	0	(59,482)	3,029,209
Total Fund Balances	<u>3,389,600</u>	<u>1,382,884</u>	<u>590,175</u>	<u>3,479,905</u>	<u>8,842,564</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$8,265,960</u>	<u>\$1,967,757</u>	<u>\$1,058,913</u>	<u>\$5,429,061</u>	<u>\$16,721,691</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2012*

Total Governmental Fund Balances \$8,842,564

*Amounts reported for governmental activities in the
 statement of net position are different because*

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds. 19,913,402

Other long-term assets are not available to pay for current-period
 expenditures and therefore are unavailable revenue in the funds:

Property Taxes	293,008	
Charges for Services - Special Assessments	2,237,682	
Municipal Income Tax	332,676	
Intergovernmental Revenues	1,495,960	
Other Revenues	2,625	
Total		4,361,951

Internal service funds are used by management to charge the costs 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 position (excluding the Capital Assets reported above and the
 compensated absences reported below). 943,913

An interfund payable is recorded in governmental activities to reflect
 overpayments to the internal service fund by the business-type activities. (5,035)

Some liabilities are not due and payable in the current
 period and therefore are not reported in the funds:

Bonds Payable	(2,090,902)	
Accrued Interest Payable	(15,300)	
Loans Payable	(3,628,581)	
Compensated Absences Payable	(1,657,148)	
Total		(7,391,931)

Net Position of Governmental Activities **\$26,664,864**

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, 2012

	General	Police Expenditure	Fire Operating	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$946,510	\$0	\$0	\$208,831	\$1,155,341
Permissive Motor Vehicle License	0	0	0	111,663	111,663
Municipal Income Tax	7,835,221	4,000,399	1,599,266	1,601,072	15,035,958
Payments in Lieu of Taxes	0	0	0	575,323	575,323
Charges for Services	762,235	6,262	4,197	251,545	1,024,239
Fines, Licenses and Permits	374,657	11,591	0	158,403	544,651
Franchise Tax	328,500	0	0	0	328,500
Intergovernmental	2,986,812	0	676,013	2,895,797	6,558,622
Investment Earnings	128,877	0	0	41,112	169,989
Donations	333,114	14,413	18,550	0	366,077
Rent	9,432	0	7,000	4,361	20,793
Other	34,200	236	1,081	115,040	150,557
<i>Total Revenues</i>	<u>13,739,558</u>	<u>4,032,901</u>	<u>2,306,107</u>	<u>5,963,147</u>	<u>26,041,713</u>
Expenditures					
Current:					
General Government:					
Legislative and Executive	3,850,922	0	0	0	3,850,922
Court	405,516	0	0	93,437	498,953
Security of Persons and Property:					
Police	0	5,603,026	0	1,819,175	7,422,201
Fire	0	0	5,475,085	123,909	5,598,994
Other	122,664	0	0	0	122,664
Public Health Services	47,330	0	0	329,619	376,949
Community Environment	478,639	0	0	807,513	1,286,152
Transportation	604,949	0	0	2,818,889	3,423,838
Leisure Time Activities	609,458	0	0	276,378	885,836
Capital Outlay	31,245	0	0	305,166	336,411
Debt Service:					
Principal Retirement	0	0	0	504,963	504,963
Interest and Fiscal Charges	0	0	0	206,763	206,763
<i>Total Expenditures</i>	<u>6,150,723</u>	<u>5,603,026</u>	<u>5,475,085</u>	<u>7,285,812</u>	<u>24,514,646</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>7,588,835</u>	<u>(1,570,125)</u>	<u>(3,168,978)</u>	<u>(1,322,665)</u>	<u>1,527,067</u>
Other Financing Sources (Uses)					
Transfers In	1,748	2,023,785	3,460,872	1,307,910	6,794,315
Proceeds from Loans	0	0	0	86,423	86,423
Proceeds from Sale of Capital Assets	0	7,105	13,000	0	20,105
Transfers Out	<u>(6,872,271)</u>	<u>0</u>	<u>0</u>	<u>(1,748)</u>	<u>(6,874,019)</u>
<i>Total Other Financing Sources (Uses)</i>	<u>(6,870,523)</u>	<u>2,030,890</u>	<u>3,473,872</u>	<u>1,392,585</u>	<u>26,824</u>
<i>Net Change in Fund Balances</i>	718,312	460,765	304,894	69,920	1,553,891
<i>Fund Balances Beginning of Year</i>	<u>2,671,288</u>	<u>922,119</u>	<u>285,281</u>	<u>3,409,985</u>	<u>7,288,673</u>
<i>Fund Balances End of Year</i>	<u>\$3,389,600</u>	<u>\$1,382,884</u>	<u>\$590,175</u>	<u>\$3,479,905</u>	<u>\$8,842,564</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, 2012*

Net Change in Fund Balances - Total Governmental Funds \$1,553,891

*Amounts reported for governmental activities in the
statement of activities are different because*

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

Capital Outlay	2,630,007	
Depreciation	<u>(1,303,568)</u>	
Excess of Capital Outlay Over Depreciation Expense		1,326,439

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

Property Taxes	23,411	
Charges for Services - Special Assessments	596,112	
Charges for Services	1,979	
Municipal Income Tax	11,777	
Intergovernmental Revenues	15,349	
Other Revenues	(1,082)	
Interest	<u>1,148</u>	
Total		648,694

In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is expensed when due. (61,455)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 504,963

Long-term debt proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities.
Long Term Loan (86,423)

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. 102,239

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:
Compensated Absences Payable (26,972)

Change in Net Position of Governmental Activities \$3,961,376

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, 2012*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Property Taxes	\$872,119	\$919,486	\$954,122	\$34,636
Municipal Income Tax	7,639,130	8,020,745	7,839,133	(181,612)
Charges for Services	668,706	762,062	761,011	(1,051)
Fines, Licenses and Permits	366,760	373,824	372,869	(955)
Franchise Tax	315,000	328,850	328,844	(6)
Intergovernmental	2,801,681	2,813,915	2,738,966	(74,949)
Investment Earnings	75,000	131,200	128,445	(2,755)
Donations	0	333,114	333,114	0
Rent	8,672	9,612	9,432	(180)
Other	6,712	26,504	34,117	7,613
<i>Total Revenues</i>	12,753,780	13,719,312	13,500,053	(219,259)
Expenditures				
Current:				
General Government:				
Legislative and Executive	4,980,418	5,299,322	3,862,120	1,437,202
Court	467,271	488,971	400,604	88,367
Security of Persons and Property:				
Other	113,277	113,277	98,697	14,580
Public Health Services	47,330	50,330	48,330	2,000
Community Environment	362,475	559,425	508,864	50,561
Transportation	916,487	888,687	615,206	273,481
Leisure Time Activities	734,140	811,164	625,476	185,688
Capital Outlay	0	229,850	185,058	44,792
<i>Total Expenditures</i>	7,621,398	8,441,026	6,344,355	2,096,671
<i>Excess of Revenues Over Expenditures</i>	5,132,382	5,278,286	7,155,698	1,877,412
Other Financing Sources (Uses)				
Transfers In	23,610	20,945	20,945	0
Transfers Out	(7,057,427)	(6,927,355)	(6,891,468)	35,887
<i>Total Other Financing Sources (Uses)</i>	(7,033,817)	(6,906,410)	(6,870,523)	35,887
<i>Net Change in Fund Balance</i>	(1,901,435)	(1,628,124)	285,175	1,913,299
<i>Fund Balance Beginning of Year</i>	1,556,836	1,556,836	1,556,836	0
Prior Year Encumbrances Appropriated	71,288	71,288	71,288	0
<i>Fund Balance (Deficit) End of Year</i>	(\$273,311)	\$0	\$1,913,299	\$1,913,299

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 Expenditure Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
Revenues				
Municipal Income Tax	\$4,002,354	\$4,002,354	\$4,002,354	\$0
Charges for Services	9,500	6,500	6,262	(238)
Fines, Licenses and Permits	0	0	11,591	11,591
Donations	1,000	6,500	6,413	(87)
Other	9,300	11,250	236	(11,014)
<i>Total Revenues</i>	<u>4,022,154</u>	<u>4,026,604</u>	<u>4,026,856</u>	<u>252</u>
Expenditures				
Current:				
Security of Persons and Property:				
Police	<u>6,589,923</u>	<u>6,802,249</u>	<u>5,605,893</u>	<u>1,196,356</u>
<i>Total Expenditures</i>	<u>6,589,923</u>	<u>6,802,249</u>	<u>5,605,893</u>	<u>1,196,356</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,567,769)</u>	<u>(2,775,645)</u>	<u>(1,579,037)</u>	<u>1,196,608</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets	0	7,105	7,105	0
Transfers In	<u>1,975,635</u>	<u>2,023,785</u>	<u>2,023,785</u>	<u>0</u>
<i>Total Other Financing Sources</i>	<u>1,975,635</u>	<u>2,030,890</u>	<u>2,030,890</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(592,134)	(744,755)	451,853	1,196,608
<i>Fund Balance Beginning of Year</i>	738,878	738,878	738,878	0
Prior Year Encumbrances Appropriated	<u>5,877</u>	<u>5,877</u>	<u>5,877</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$152,621</u>	<u>\$0</u>	<u>\$1,196,608</u>	<u>\$1,196,608</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
Fire Operating Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Over (Under)
Revenues				
Municipal Income Tax	\$1,600,048	\$1,600,048	\$1,600,048	\$0
Charges for Services	3,800	4,261	4,261	0
Intergovernmental	0	676,013	676,013	0
Donations	0	100	100	0
Other	1,000	1,201	1,131	(70)
<i>Total Revenues</i>	<u>1,604,848</u>	<u>2,281,623</u>	<u>2,281,553</u>	<u>(70)</u>
Expenditures				
Current:				
Security of Persons and Property:				
Fire	<u>6,156,877</u>	<u>6,244,914</u>	<u>5,490,350</u>	<u>754,564</u>
<i>Total Expenditures</i>	<u>6,156,877</u>	<u>6,244,914</u>	<u>5,490,350</u>	<u>754,564</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,552,029)</u>	<u>(3,963,291)</u>	<u>(3,208,797)</u>	<u>754,494</u>
Other Financing Sources				
Transfers In	<u>3,635,064</u>	<u>3,460,872</u>	<u>3,460,872</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(916,965)	(502,419)	252,075	754,494
<i>Fund Balance Beginning of Year</i>	481,872	481,872	481,872	0
Prior Year Encumbrances Appropriated	<u>20,547</u>	<u>20,547</u>	<u>20,547</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$414,546)</u>	<u>\$0</u>	<u>\$754,494</u>	<u>\$754,494</u>

See accompanying notes to the basic financial statements

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City of Zanesville, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2012
 Business Type Activities - Enterprise Funds

	Sanitation	Sewer	Water	Total	Governmental Activities - Internal Service Funds
Assets					
Current:					
Equity in Pooled Cash and Cash Equivalents	\$522,968	\$1,493,651	\$655,997	\$2,672,616	\$957,663
Cash and Cash Equivalents in Segregated Accou	0	62,815	0	62,815	0
Accrued Interest Receivable	24	6	18	48	0
Accounts Receivable	360,840	968,208	757,913	2,086,961	10
Intergovernmental Receivable	0	0	0	0	24,768
Interfund Receivable	0	84,257	0	84,257	146,332
Special Assessments Receivable	0	107,056	0	107,056	0
Materials and Supplies Inventory	0	288,639	488,277	776,916	264,281
Restricted Assets:					
Customer Deposits:					
Equity in Pooled Cash and Cash Equivalents	0	0	300,940	300,940	0
Prepaid Items	2,471	13,037	15,980	31,488	743
Total Current Assets	886,303	3,017,669	2,219,125	6,123,097	1,393,797
Noncurrent:					
Non-Depreciable Capital Assets	0	398,397	88,187	486,584	0
Depreciable Capital Assets, Net	128,888	41,007,605	25,613,729	66,750,222	3,817
Total Noncurrent Assets	128,888	41,406,002	25,701,916	67,236,806	3,817
Total Assets	1,015,191	44,423,671	27,921,041	73,359,903	1,397,614
Liabilities					
Current:					
Accounts Payable	32,016	82,499	99,399	213,914	26,411
Accrued Wages Payable	31,689	73,259	76,265	181,213	18,927
Intergovernmental Payable	19,585	48,067	47,869	115,521	12,070
Accrued Interest Payable	0	0	1,367	1,367	0
Claims Payable	0	0	0	0	392,300
Interfund Payable	7,287	13,901	31,111	52,299	176
Compensated Absences Payable	69,593	147,218	131,223	348,034	34,362
General Obligation Bonds Payable	0	0	66,000	66,000	0
OPWC Loans Payable	0	0	37,039	37,039	0
OWDA Loans Payable	0	1,385,582	453,440	1,839,022	0
Current Liabilities Payable from Restricted Assets:					
Customer Deposits	0	0	300,940	300,940	0
Total Current Liabilities	160,170	1,750,526	1,244,653	3,155,349	484,246
Long-Term:					
Compensated Absences Payable	19,339	0	72,301	91,640	19,808
Notes Payable	0	0	373,500	373,500	0
OPWC Loans Payable	0	0	37,784	37,784	0
OWDA Loans Payable	0	14,167,678	12,724,026	26,891,704	0
Total Long-Term Liabilities	19,339	14,167,678	13,207,611	27,394,628	19,808
Total Liabilities	179,509	15,918,204	14,452,264	30,549,977	504,054
Net Position					
Net Investment in Capital Assets	128,888	25,852,742	12,010,127	37,991,757	3,817
Unrestricted	706,794	2,652,725	1,458,650	4,818,169	889,743
Total Net Position	\$835,682	\$28,505,467	\$13,468,777	42,809,926	\$893,560

Some amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities.

Net position of business-type activities

5,035
\$42,814,961

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
*Statement of Revenues, Expenses
and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012*

	Business Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sanitation	Sewer	Water	Total	
Operating Revenues					
Charges for Services	\$1,620,093	\$7,111,086	\$5,124,333	\$13,855,512	\$5,196,029
Other Operating Revenues	105	0	225	330	362
<i>Total Operating Revenues</i>	<u>1,620,198</u>	<u>7,111,086</u>	<u>5,124,558</u>	<u>13,855,842</u>	<u>5,196,391</u>
Operating Expenses					
Salaries and Wages	546,858	1,383,858	1,364,678	3,295,394	338,999
Fringe Benefits	310,717	716,210	706,110	1,733,037	166,362
Contractual Services	518,889	1,310,528	1,486,172	3,315,589	390,713
Materials and Supplies	21,661	381,736	216,455	619,852	842,860
Claims	0	0	0	0	3,428,611
Other Operating Expenses	0	0	0	0	2,257
Depreciation	39,624	1,157,205	219,448	1,416,277	0
<i>Total Operating Expenses</i>	<u>1,437,749</u>	<u>4,949,537</u>	<u>3,992,863</u>	<u>10,380,149</u>	<u>5,169,802</u>
<i>Operating Income</i>	<u>182,449</u>	<u>2,161,549</u>	<u>1,131,695</u>	<u>3,475,693</u>	<u>26,589</u>
Non-Operating Revenues (Expenses)					
Investment Earnings	638	58	650	1,346	0
Grants	4,000	192,010	0	196,010	0
Intergovernmental	0	3,623	2,895	6,518	0
Other Non-Operating Revenues	0	86,286	27,983	114,269	0
Interest and Fiscal Charges	0	(732,721)	(350,908)	(1,083,629)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>4,638</u>	<u>(450,744)</u>	<u>(319,380)</u>	<u>(765,486)</u>	<u>0</u>
<i>Income Before Transfers</i>	<u>187,087</u>	<u>1,710,805</u>	<u>812,315</u>	<u>2,710,207</u>	<u>26,589</u>
Transfers In	0	0	0	0	79,704
<i>Change in Net Position</i>	<u>187,087</u>	<u>1,710,805</u>	<u>812,315</u>	<u>2,710,207</u>	<u>106,293</u>
<i>Net Position Beginning of Year - Restated (See Note 4)</i>	<u>648,595</u>	<u>26,794,662</u>	<u>12,656,462</u>		<u>787,267</u>
<i>Net Position End of Year</i>	<u>\$835,682</u>	<u>\$28,505,467</u>	<u>\$13,468,777</u>		<u>\$893,560</u>

Some amounts reported for business-type activities in the statement of activities are different because the net expense of the internal service fund is reported with business-type activities.

Change in net position of busniess-type activities	5,035
	\$2,715,242

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

Business Type Activities - Enterprise Funds

	Sanitation	Sewer	Water	Total Funds
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$1,607,518	\$6,944,680	\$5,168,529	\$13,720,727
Cash Received from Transactions with Other Funds	0	0	0	0
Cash Payments for Employee Services and Benefits	(852,422)	(2,112,940)	(2,064,615)	(5,029,977)
Cash Payments to Suppliers for Goods and Services	(539,500)	(1,646,255)	(1,841,287)	(4,027,042)
Other Operating Revenues	105	0	0	105
Other Operating Revenues	0	0	0	0
Cash Payments for Claims	0	0	0	0
Other Non-Operating Revenues	0	2,029	27,983	30,012
<i>Net Cash Provided by Operating Activities</i>	<u>215,701</u>	<u>3,187,514</u>	<u>1,290,610</u>	<u>4,693,825</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	0	(1,047,108)	(2,551,298)	(3,598,406)
Capital Grants	0	3,623	0	3,623
Loan Proceeds	0	342,569	2,283,257	2,625,826
Principal Paid on Debt	0	(1,726,408)	(950,677)	(2,677,085)
Interest Paid on Debt	0	(732,721)	(351,120)	(1,083,841)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>0</u>	<u>(3,160,045)</u>	<u>(1,569,838)</u>	<u>(4,729,883)</u>
Cash Flows from Non-Capital and Related Financing Activities:				
Operating Grants	4,000	192,010	2,895	198,905
Operating Transfers In	0	0	0	0
<i>Net Cash Provided by Non-Capital and Related Financing Activities</i>	<u>4,000</u>	<u>192,010</u>	<u>2,895</u>	<u>198,905</u>
Cash Flows from Investing Activities:				
Investment Earnings	614	52	632	1,298
<i>Net Cash Provided by Investing Activities</i>	<u>614</u>	<u>52</u>	<u>632</u>	<u>1,298</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	220,315	219,531	(275,701)	164,145
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>302,653</u>	<u>1,336,935</u>	<u>1,232,638</u>	<u>2,872,226</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$522,968</u></u>	<u><u>\$1,556,466</u></u>	<u><u>\$956,937</u></u>	<u><u>\$3,036,371</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
<i>Operating Income</i>	\$182,449	\$2,161,549	\$1,131,695	\$3,475,693
Adjustments:				
Depreciation	39,624	1,157,205	219,448	1,416,277
Other Non-Operating Revenues	0	2,029	27,983	30,012
(Increase)/Decrease in Assets:				
Accounts Receivable	(12,575)	(154,871)	44,196	(123,250)
Intergovernmental Receivable	0	0	0	0
Interfund Receivable	0	0	0	0
Special Assessments Receivable	0	(11,535)	0	(11,535)
Materials and Supplies Inventory	0	30,259	26,210	56,469
Prepaid Items	(205)	1,875	(3,303)	(1,633)
Increase/(Decrease) in Liabilities:				
Accounts Payable	(2,066)	12,790	23,296	34,020
Contracts Payable	0	(8,017)	(204,021)	(212,038)
Accrued Wages Payable	5,940	8,351	4,724	19,015
Intergovernmental Payable	(3,573)	(7,841)	(12,104)	(23,518)
Interfund Payable	3,321	9,102	19,158	31,581
Claims Payable	0	0	0	0
Customer Deposits Payable	0	0	(225)	(225)
Compensated Absences Payable	2,786	(13,382)	13,553	2,957
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$215,701</u></u>	<u><u>\$3,187,514</u></u>	<u><u>\$1,290,610</u></u>	<u><u>\$4,693,825</u></u>

See accompanying notes to the basic financial statements

Governmental
Activities -
Internal Service
Funds

\$0
5,148,077
(504,791)
(1,226,353)
1,647
(2,257)
(3,441,011)
0

(24,688)

0
0
0
0
0

0

0
79,704

79,704

0

0

55,016

902,647

\$957,663

\$26,589

0
0

1,285
58,330
(106,282)
0
0
(69)

7,289
0
1,092
(1,679)
176
(12,400)
0
981

(\$24,688)

City of Zanesville, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

	Private Purpose Trust Funds	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$23,511	\$69,938
Accrued Interest	2	0
<i>Total Assets</i>	23,513	\$69,938
Liabilities		
Undistributed Monies	0	\$42,800
Deposits Held and Due to Others	0	\$27,138
<i>Total Liabilities</i>	0	\$69,938
Net Position		
Held in Trust for Private Purposes	23,513	
Total Net Position	\$23,513	

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Funds
December 31, 2012

Additions	
Interest	\$56
Deletions	
Other	<u>0</u>
<i>Change in Net Position</i>	56
<i>Net Position Beginning of Year</i>	<u>23,457</u>
<i>Net Position End of Year</i>	<u><u>\$23,513</u></u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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 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.

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 following have been excluded from the financial reporting entity:

Muskingum County Public Library
Zanesville City School District
Muskingum Community Action Group, Inc.
Muskingum University
Zane State 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 18.

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

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

The City is involved with the following organizations which are defined as joint ventures. Additional information concerning the joint ventures is presented in Note 19.

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 involved with the follow organization which is defined as a related organization. Additional information concerning the related organization is presented in Note 20.

The South East Area Transit Authority

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 position 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 position 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, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity self-financing or draws from the general revenues of the City.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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

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 deferred outflows of resources, and liabilities and deferred inflows of resources 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 Expenditure Fund The Police Expenditure Fund is used to account for that portion of income tax collections designated for security of persons and property within the City.

Fire Operating Fund The Fire Operating Fund is used to account for that portion of income tax collections designated for operating costs of the City's three fire stations.

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 position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's proprietary funds are all classified as 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. All of the City's enterprise funds are major funds.

Sanitation Fund The Sanitation Fund is used to account for the revenues generated from the charges for refuse collection to the residential and commercial users of the City.

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.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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. One internal service fund of the City accounts for self-insurance for health care claims and the other internal service fund accounts for vehicle maintenance costs.

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. 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 payroll activity and mayor's court collections that are distributed to various local governments. The City's private purpose trust funds are used to hold in trust monies that do not benefit the City.

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 position. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenditures) in total net position.

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 position. The statement of changes in revenues, expenses, and changes in fund net position 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 inflows of resources, and in the presentation of expenses versus expenditures.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). 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 nonexchange 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, grants, fees, and rentals.

Deferred Outflows/Inflows of Resources In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 object level within each department. Any budgetary modifications at this level may only be made by resolution of the City Council.

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 resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. 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."

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest is credited to the General Fund, the Street and State Highway and Law Enforcement Special Revenue Funds. Interest revenue credited to the General Fund during 2012 amounted to \$128,877, which includes \$103,800 assigned from other City funds.

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.

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.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 repurchase agreements, money market mutual funds, and U.S. Treasury Notes during 2012.

G. 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 represent utility deposits from customers that are classified as restricted because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer. Unclaimed monies that are required to be held for five years before they may be utilized by the City are reported as restricted.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, 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.

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 position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition 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. 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.

City of Zanesville, Ohio
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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</u>	<u>Business-Type Activities</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 - 50 years	8 - 50 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 part of long term obligations. 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 ten 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.

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. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

City of Zanesville, Ohio
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Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

N. Net Position

Net position represents the difference between all other elements in a statement of financial position. Net 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 position is 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 position restricted for other purposes include activities related to community health and improvement, court and public safety, law enforcement, airport, and auditorium.

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

O. 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 sanitation, 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.

P. Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

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

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

Q. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are reported as “Interfund Receivables/Payables”. The amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

R. Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds payable.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and that are either unusual in nature or infrequent in occurrence.

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 - 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 restricted, committed, or assigned fund balance (GAAP).
4. Unrecorded cash and interest, segregated accounts, and prepaid items are reported on the balance sheet (GAAP) but not on the budgetary basis.

City of Zanesville, Ohio
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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 Expenditure and Fire Operating Special Revenue Funds.

Net Change in Fund Balance

	General	Police Expenditure	Fire Operating
GAAP Basis	\$718,312	\$460,765	\$304,894
Net Adjustment for Revenue Accruals	(257,505)	(6,045)	(37,554)
Beginning of Year:			
Unrecorded Cash	20,127	0	0
Unrecorded Interest	27,375	0	0
Prepaid Items	17,025	18,676	8,464
Segregated Accounts	6,579	0	0
End of Year:			
Unrecorded Interest	(27,807)	0	0
Prepaid Items	(21,331)	(9,265)	(8,466)
Segregated Accounts	(8,274)	0	0
Net Adjustment for Expenditure Accruals	158,402	44,662	(6,531)
Encumbrances	(347,728)	(56,940)	(8,732)
Budget Basis	<u>\$285,175</u>	<u>\$451,853</u>	<u>\$252,075</u>

NOTE 4 - CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR BALANCES

A. Changes in Accounting Principles

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53" Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

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GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements

B. Restatement of Prior Year Balances

The City has restated prior year net position, based on corrections made to capital assets, accumulated depreciation and the internal service eliminations in 2011.

	<u>Sewer</u>
12/31/11 Net Position	\$26,801,433
Capital Assets	<u>(6,771)</u>
Restated 12/31/11 Net Position	<u><u>\$26,794,662</u></u>
Entity Wide:	<u>Governmental</u>
12/31/11 Net Position	\$24,431,326
Internal Service	24,128
Capital Assets, Net	<u>(1,751,966)</u>
Restated 12/31/11 Net Postion	<u><u>\$22,703,488</u></u>

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 5 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Police Expenditure	Fire Operating	Other Governmental Funds	Total
<u>Nonspendable:</u>					
Prepays	\$21,331	\$9,265	\$8,466	\$13,714	\$52,776
Loans	0	0	0	105,459	105,459
Cemetery Endowments	0	0	0	665,189	665,189
Unclaimed monies	7,545	0	0	0	7,545
Inventory	128	4,792	0	122,377	127,297
<i>Total Nonspendable</i>	<u>29,004</u>	<u>14,057</u>	<u>8,466</u>	<u>906,739</u>	<u>958,266</u>
<u>Restricted for:</u>					
Street Improvements	0	0	0	348,787	348,787
Community Development	0	0	0	303,301	303,301
Cemetery	0	0	0	78,361	78,361
Emergency Management	0	0	0	53,719	53,719
Fire Protection	0	0	581,709	0	581,709
Law Enforcement	0	1,368,827	0	230,786	1,599,613
Court Operations	0	0	0	422,264	422,264
Jail Operating	0	0	0	742,692	742,692
Police and Fire Pension	0	0	0	17,306	17,306
Airport Improvements	0	0	0	58,461	58,461
Capital Improvements	0	0	0	234,117	234,117
<i>Total Restricted</i>	<u>0</u>	<u>1,368,827</u>	<u>581,709</u>	<u>2,489,794</u>	<u>4,440,330</u>
<u>Committed to:</u>					
Capital Improvements	0	0	0	106,217	106,217
Auditorium Operating	0	0	0	36,637	36,637
<i>Total Committed</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>142,854</u>	<u>142,854</u>
<u>Assigned to:</u>					
Other purposes	271,905	0	0	0	271,905
<i>Total Assigned</i>	<u>271,905</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>271,905</u>
<u>Unassigned:</u>					
	3,088,691	0	0	(59,482)	3,029,209
Total Fund Balances	<u><u>\$3,389,600</u></u>	<u><u>\$1,382,884</u></u>	<u><u>\$590,175</u></u>	<u><u>\$3,479,905</u></u>	<u><u>\$8,842,564</u></u>

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 6 - 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim 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.

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 finance director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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, and 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

City of Zanesville, Ohio
Notes to the Basic Financial Statements
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6. No-load money market mutual funds consisting exclusively of obligations describe 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 simultaneously exchange similar securities or cash, equal value for equal value;
9. Up to twenty-five percent of the City's average portfolio in either of the following:
 - a. commercial paper notes in entities incorporated under the laws of Ohio or any other State that have assets exceeding five hundred million dollars rated at the time of purchase, which are rated in the highest qualification established by two nationally recognized standard rating services, which do not exceed ten percent of the value of the outstanding commercial paper of the issuing corporation and which mature within 270 days after purchase.
 - b. bankers acceptances eligible for purchase by the federal reserve system and which mature within 180 days after purchase;
10. Fifteen percent of the City's average portfolio in notes issued by U.S. corporations or by depository institutions that are doing business under authority granted by the U.S. provided that the notes are rated in the second highest or higher category by at least two nationally recognized standard rating services at the time of purchase and the notes mature within two years from the date of purchase;
11. No-load money market mutual funds rated in the highest category at the time of purchase by at least one nationally recognized standard rating service consisting exclusively of obligations guaranteed by the United States, securities issued by a federal government agency or instrumentality, and/or highly rated commercial paper; and,
12. One percent of the City's average portfolio in debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Other than corporate notes, commercial paper, and bankers' acceptances, an investment must mature within five years from the date of settlement unless matched to a specific obligation or debt of the City. Investments must be purchased with the expectation that they 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, 2012

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$11,662,914 and the bank balance was \$11,908,857. Of the bank balance, \$7,825,470 was covered by Federal depository insurance and \$4,083,387 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

The City had the following investments at December 31, 2012:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. Treasury Notes	\$40,000	< 1 Year

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).

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 one issuer.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

2012 real property taxes are levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

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

Public utility property tax revenue received in calendar year 2012 represent the collection of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien on December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The full tax rate for all City operations for the year ended December 31, 2012, was \$3.40 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2012 property tax receipts were based are as follows:

Real Property	\$366,905,010
Public Utility Property	<u>13,657,820</u>
	<u><u>\$380,562,830</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the 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 and public utility taxes which are measurable as of December 31, 2011, and for which there is an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2012, consisted of taxes, special assessments, accounts (billings for user charged services including unbilled utility services), interfund, accrued interest, loans, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered collectible in full. Delinquent sewer accounts receivable (billings for user charged services) are certified and collected as a special assessment, subject to foreclosure for nonpayment. The financial statements reflect loans receivable of \$105,459. This amount is for the principal owed to the City for Federal Community Development Block Grant Program monies loaned to individuals for the demolition of condemned buildings and home improvements. The loans bear interest at annual rates of three and one-half to nine percent. The loans are to be repaid over periods ranging from two to fifteen years.

City of Zanesville, Ohio
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A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	<u>Amount</u>
Estate Taxes	\$663,553
Community Development Block Grant	619,400
Gasoline Tax and Motor Vehicle License	474,604
Local Government	314,974
Airport Layout Grant	103,056
Federal Emergency Management Agency Grant	62,672
Homestead and Rollback	58,026
Demolition Grant	56,724
Probation Grant	30,010
Southeast Area Transit Authority Fuel Charges	24,768
Permissive Tax	6,982
Other	3,919
Ohio Department of Transportation Grant	<u>998</u>
Total Receivable	<u><u>\$2,419,686</u></u>

NOTE 9 - INCOME TAX

The City levies a municipal income tax of one and nine 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, .2% to Jail Operating Special Revenue Fund, and .2% to the Fire Operating Special Revenue Fund.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
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NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Restated Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$1,188,231	\$0	\$0	\$1,188,231
Construction in Progress	3,892,266	1,171,965	1,443,462	3,620,769
Total Capital Assets not being Depreciated	<u>5,080,497</u>	<u>1,171,965</u>	<u>1,443,462</u>	<u>4,809,000</u>
Capital Assets being Depreciated:				
Buildings and Improvements	17,934,949	0	0	17,934,949
Machinery and Equipment	2,354,714	59,931	12,360	2,402,285
Vehicles	3,481,835	847,980	321,733	4,008,082
Infrastructure	12,724,280	1,993,593	0	14,717,873
Total Capital Assets being Depreciated	<u>36,495,778</u>	<u>2,901,504</u>	<u>334,093</u>	<u>39,063,189</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(12,232,283)	(280,073)	0	(12,512,356)
Machinery and Equipment	(1,904,334)	(115,486)	(12,360)	(2,007,460)
Vehicles	(2,989,018)	(201,137)	(321,733)	(2,868,422)
Infrastructure	(5,863,677)	(706,872)	0	(6,570,549)
Total Accumulated Depreciation	<u>(22,989,312)</u>	<u>(1,303,568) *</u>	<u>(334,093)</u>	<u>(23,958,787)</u>
Total Capital Assets being Depreciated, Net	<u>13,506,466</u>	<u>1,597,936</u>	<u>0</u>	<u>15,104,402</u>
Governmental Activities Capital Assets, Net	<u>\$18,586,963</u>	<u>\$2,769,901</u>	<u>\$1,443,462</u>	<u>\$19,913,402</u>

* Depreciation expense was charged to governmental programs as follows:

General Government - Legislative and Executive	\$9,340
Security of Persons and Property:	
Police	222,586
Fire	222,586
Public Health Services	19,780
Community Environment	3,057
Transportation	730,619
Leisure Time Activities	95,600
Total Depreciation Expense	<u>\$1,303,568</u>

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Restated Balance 12/31/11	Increases	Decreases	Balance 12/31/12
Business-Type Activities:				
Capital Assets not being Depreciated:				
Land	\$233,184	\$0	\$0	\$233,184
Construction in Progress	17,361,645	2,782,254	19,890,499	253,400
Total Capital Assets not being Depreciated	<u>17,594,829</u>	<u>2,782,254</u>	<u>19,890,499</u>	<u>486,584</u>
Capital Assets being Depreciated:				
Buildings and Improvements	20,721,625	10,138,340	0	30,859,965
Machinery and Equipment	8,012,501	5,885,443	0	13,897,944
Vehicles	1,463,979	22,444	0	1,486,423
Infrastructure	38,471,096	4,660,424	0	43,131,520
Total Capital Assets being Depreciated	<u>68,669,201</u>	<u>20,706,651</u>	<u>0</u>	<u>89,375,852</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(6,021,849)	(373,925)	0	(6,395,774)
Machinery and Equipment	(6,280,496)	(207,408)	0	(6,487,904)
Vehicles	(1,201,364)	(61,837)	0	(1,263,201)
Infrastructure	(7,705,644)	(773,107)	0	(8,478,751)
Total Accumulated Depreciation	<u>(21,209,353)</u>	<u>(1,416,277)</u>	<u>0</u>	<u>(22,625,630)</u>
Total Capital Assets being Depreciated, Net	<u>47,459,848</u>	<u>19,290,374</u>	<u>0</u>	<u>66,750,222</u>
Business-Type Activities Capital Assets, Net	<u>\$65,054,677</u>	<u>\$22,072,628</u>	<u>\$19,890,499</u>	<u>\$67,236,806</u>

During 2012, the City received capital contributions in the Police and Fire Operating Funds in the amount of \$26,450 for vehicles donated by the City of Reynoldsburg and Muskingum County.

NOTE 11 - RISK MANAGEMENT

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, 2012, the City contracted with U.S. Specialty Insurance Company for general liability insurance, 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 \$1,000,000 per occurrence and subject to \$5,000.00 deductible. 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 \$50,000 deductible each occurrence. Police professional liability coverage is maintained with a \$1,000,000 each occurrence, \$3,000,000 aggregate limit with a \$10,000 deductible per claim, including loss adjustment expense. Inland Marine is maintained per schedule with a \$1,000 deductible.

U.S. Specialty Insurance Company provides public official liability (claims made policy) with prior acts retroactive to June 1, 1986 which is maintained in the amount of \$1,000,000 per claim, \$1,000,000 aggregate, with a \$10,000 deductible, including loss adjustment expense.

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

U.S. Specialty Insurance Company provides vehicle fleet insurance which 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 U.S. Specialty Insurance Company with coverage included in property form and limit with a \$1,000 deductible.

U.S. Specialty Insurance Company provides excess liability insurance over general liability, EMT, ambulance malpractice, fire division liability, public official liability, police professional liability, and auto liability which is maintained in an aggregate amount of \$6,000,000 subject to \$10,000.00 self insured retention. Excess liability insurance excludes uninsured/underinsured motorist coverage.

The U.S. Specialty Insurance Company provides crime insurance coverage for robbery and safe burglary with a \$25,000 per occurrence limit and a \$250 deductible.

U.S. specialty Insurance Company provides railroad protective liability insurance with a limit of \$2,000,000.00 per occurrence and \$6,000,000 annual aggregate.

Ace Property & 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.

The City maintains a limited risk health insurance program for employees. Premiums are paid to a third party administrator, Medical Benefits Administrators, 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 \$160,000.

The claims liability of the Health Self-Insurance internal service fund of \$392,300 reported at December 31, 2012, 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 2011 and 2012 were:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2011	\$671,900	\$3,566,848	\$3,834,048	\$404,700
2012	404,700	3,428,611	3,441,011	392,300

The City pays the State Workers' Compensation System a premium for employee injury coverage based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, 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 death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local classifications contributed 10.0 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14.0 percent. The portion of employers contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to members allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010, were \$776,733, \$718,890, and \$1,384,456, respectively. For 2012, 88.15 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed Plan for 201 were \$15,752 made by the City and \$11,252 made by plan members.

B. Police and Firemen's Disability and Pension Fund

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

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions used to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$327,337 and \$467,387 for the year ended December 31, 2012, \$371,224 and \$513,560 for the year ended December 31, 2011, and \$526,409 and \$659,901 for the year ended December 31, 2010, respectively. For 2015, 64.11 percent for police and 66.85 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the member directed plan – a defined contribution plan; and the combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan.

OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local government employers contributed 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent for 2012. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010, were \$310,693, \$287,556, and \$543,953, respectively. For 2012, 88.15 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

B. Police and Firemen's Disability and Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined post -employment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium reimbursement and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare 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. The health care coverage provided by OP&F meets the definition of an Other-Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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. That report is also available at OP&F's website at www.op-f.org.

Funding policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB plan.

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2012, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$173,296 and \$182,890 for the year ended December 31, 2012, \$196,530 and \$200,958 for the year ended December 31, 2011, and \$182,218 and \$262,929 for the year ended December 31, 2010. For 2012, 64.11 percent has been contributed for police and 66.85 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 14 - 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 and police officers (including sergeants, lieutenants, and captains). Correction officers are insured for \$10,000 and police officers are insured for \$30,000. 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 are \$500 In-Network and \$1,000 out of Network for family coverage and \$200 in network and \$400 out of network for single coverage. Employees with family coverage are responsible for a \$52.70 payroll deduction, and employees with single coverage are responsible for a \$35.00 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 500 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 700 hours. Upon retirement, 33 percent of balance with a maximum payment of 700 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

City of Zanesville, Ohio
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For the Year Ended December 31, 2012

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.

NOTE 15 - CONTRACTUAL COMMITMENTS

As of December 31, 2012, the City had contractual purchase commitments for projects in various funds. The amount for each project is as follows:

	Purchase Commitments	Amount Expended	Amount Remaining on Contracts
Airport Taxiway Construction - Airport Fund	\$1,131,476	\$831,385	\$300,091
Military Bridge Engineering - State and Federal Infrastructure	44,996	24,123	20,873
Total All Projects	\$1,176,472	\$855,508	\$320,964

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City for the year ended December 31, 2012, were as follows:

	Principal Outstanding 12/31/2011	Additions	Deletions	Principal Outstanding 12/31/2012	Amounts Due in One Year
Governmental Activities:					
General Obligation Bonds					
Ohio Government Building Bonds 1986 - \$950,000 @ 7.375%	\$40,000	\$0	\$40,000	\$0	\$0
Capital Facilities Refunding Bonds 2003 - \$5,490,000					
Jail Construction Refunding - \$2,362,500 Serial/Term Bonds @ 1.2% - 4.00%	1,179,500	0	154,000	1,025,500	154,000
Premium Amortization	6,303	0	901	5,402	0
Street Improvement Bonds 2010 - \$1,210,000 @ 4.138%	1,110,000	0	50,000	1,060,000	50,000
Total General Obligation Bonds	2,335,803	0	244,901	2,090,902	204,000
Bridge Replacement Loan - OPWC 2012 - \$111,036 @0%	0	86,423	0	86,423	0
ODOT Loan - 3%	3,803,121	0	260,963	3,542,158	268,851
Total Long-Term Loans	3,803,121	86,423	260,963	3,628,581	268,851
Compensated Absences	1,630,176	1,413,727	1,386,755	1,657,148	1,235,471
Total Governmental Activities	\$7,769,100	\$1,500,150	\$1,892,619	\$7,376,631	\$1,708,322

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Principal Outstanding 12/31/2011	Additions	Deletions	Principal Outstanding 12/31/2012	Amounts Due in One Year (continued)
Business-Type Activities:					
<u>Bonds:</u>					
Capital Facilities Refunding, 2003 \$5,490,000					
Water - \$1,371,250					
Serial/Term @ 1.2% - 4.00%	\$505,500	\$0	\$66,000	\$439,500	\$66,000
Total General Obligation Bonds	505,500	0	66,000	439,500	66,000
<u>Loans:</u>					
Water OPWC Loan					
2005 - \$346,035 @ .022%	111,132	0	36,309	74,823	37,039
Total Water OPWC Loan	111,132	0	36,309	74,823	37,039
Water OWDA Loan					
1988 - \$1,676,020 @ 7.36%	140,946	0	140,946	0	0
Water OWDA Loan					
1989 - \$885,000 @ 8.40%	116,777	0	76,816	39,961	39,961
Water OWDA Loan					
2004 - \$743,205 @ 4.90%	123,603	0	81,401	42,202	42,202
Water OWDA Loan					
2004 - \$752,750 @ 4.90%	380,237	0	78,056	302,181	81,600
Water OWDA Loan					
2009 - \$864,936 @ 0.00%	348,222	0	38,390	309,832	41,311
Water OWDA Loan					
2009 - \$895,477 @ 3.20%	718,584	0	43,159	675,425	0
Water OWDA Loan					
2009 - \$7,514,758 @ 3.65%	5,071,065	2,283,257	141,233	7,213,089	0
Water OWDA Loan					
2009 - \$9,197,325 @ 0.00%	4,843,143	0	248,367	4,594,776	248,366
Total Water OWDA Loans	11,742,577	2,283,257	848,368	13,177,466	453,440
Sewer OWDA Loan					
1988 - \$8,813,313 @ 7.65%	335,541	0	335,541	0	0
Sewer OWDA Loan					
1989 - \$117,351 @ 8.04%	10,331	0	10,331	0	0
Sewer OWDA Loan					
1988 - \$290,400 @ 7.73%	25,348	0	25,348	0	0
Sewer OWDA Loan					
2002 - \$1,324,942 @ 3.59%	873,855	0	62,605	811,250	64,873
Sewer OWDA Loan					
2004 - \$1,268,110 @ 3.41%	676,151	23	44,207	631,967	45,727
Sewer OWDA Loan					
2004 - \$5,471,246 @ 4.10%	2,737,771	0	565,934	2,171,837	589,375
Sewer OWDA Loan					
2007 - \$685,085 @ 4.17%	\$411,424	\$0	\$68,030	\$343,394	\$70,896

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

	Principal Outstanding 12/31/2011	Additions	Deletions	Principal Outstanding 12/31/2012	Amounts Due in One Year (continued)
Sewer OWDA Loan 2007 - \$887,526 @ 4.47%	\$536,142	\$0	\$88,041	\$448,101	\$92,021
Sewer OWDA Loan 2007 - \$14,337,659 @ 4.47%	10,598,112	0	410,256	10,187,856	428,800
Sewer OWDA Loan 2007 - \$834,640 @ 4.47%	420,102	0	62,513	357,589	65,338
Sewer OWDA Loan 2009 - \$376,284 @ 3.25%	163,638	0	17,007	146,631	0
Sewer OWDA Loan 2011 - \$148,684 @ 3.95%	148,684	0	27,457	121,227	28,552
Sewer OWDA Loan 2012 - \$333,431 @ 3.17%	0	342,569	9,138	333,431	0
Total Sewer OWDA Loans	16,937,099	342,569	1,726,408	15,553,260	1,385,582
Compensated Absences	436,717	377,795	374,838	439,674	348,034
Total Business-Type Activities	\$29,733,025	\$3,003,621	\$3,051,923	\$29,684,723	\$2,290,095

Compensated Absences - The City will pay compensated absences from the General Fund, Street and State Highway, Law Enforcement, Police Expenditure, Jail Operating, Fire Operating, Court, Community Development, Airport, Cemetery and Auditorium Special Revenue Funds, Vehicle Maintenance fund, and the Sanitation, Sewer and Water Enterprise funds.

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. These bonds were retired during 2012.

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 was 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. 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 2003 Capital Facilities Refunding Bonds outstanding at December 31, 2012 are as follows:

City of Zanesville, Ohio
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Year	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2013	\$154,000	\$38,815	\$66,000	\$15,635
2014	161,000	33,271	69,000	14,259
2015	168,000	27,475	72,000	11,775
2016	175,000	21,259	75,000	9,111
2017	178,500	14,521	76,500	6,223
2018	189,000	7,560	81,000	3,240
	<u>\$1,025,500</u>	<u>\$142,901</u>	<u>\$439,500</u>	<u>\$60,243</u>

OWDA Loans - The City has issued numerous OWDA Loans for various water and sewer projects. Four 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. In connection with the loan funds received from the Ohio Water Development Authority, the City has pledged future customer revenues of the Water and Sewer Funds, net of specified operating expenses and net of debt service requirements on the general obligation bonds (which have first priority and a lien on net income available for debt service), to repay these loans. 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	OWDA Loan		OWDA Loan	
	Water		Sewer	
	Principal	Interest	Principal	Interest
2013	\$453,440	\$17,047	\$1,385,582	\$635,807
2014	374,982	8,957	1,444,535	576,850
2015	378,855	5,084	1,506,011	515,379
2016	335,775	1,035	1,233,891	451,275
2017	289,677	0	812,545	405,581
2018-2022	1,345,107	0	3,633,958	1,614,383
2023-2027	1,241,830	0	3,794,330	750,009
2028-2031	869,286	0	1,262,346	56,842
	<u>\$5,288,952</u>	<u>\$32,123</u>	<u>\$15,073,198</u>	<u>\$5,006,126</u>

ODOT Loan - During 2005, the City entered into a loan agreement with the Ohio Department of Transportation. These proceeds were used to complete a connector road project. The loan was issued at 3% and will mature in 2015. A summary of the principal and interest requirements to retire this loan is as follows:

Year	Principal	Interest
2013	\$268,851	\$121,413
2014	276,976	113,806
2015	2,996,331	105,969
	<u>\$3,542,158</u>	<u>\$341,188</u>

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 .022% and will mature in 2014. A summary of the principal and interest requirements to retire this loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$37,039	\$1,312
2014	37,784	568
	<u>\$74,823</u>	<u>\$1,880</u>

OPWC Loan - During 2012, the City issued an OPWC loan in the amount of \$111,036. The loan was issued for the Muskingum Avenue Bridge Replacement Project. The loan was issued at 0% and will mature in 2022. As of December 31, 2012, the City has drawn down \$86,423 from this loan.

Street Improvement Bonds - During 2010, the City entered into a Bond Purchase Agreement with Fifth Third Securities for Street Improvement Bonds in the amount of \$1,210,000. The bonds were issued at 4.138% and will mature in 2029. A summary of the principal and interest requirements to retire the bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$50,000	\$41,070
2014	50,000	40,070
2015	50,000	38,820
2016	50,000	37,445
2017	50,000	37,945
2018-2022	275,000	152,455
2023-2027	370,000	87,165
2028-2029	165,000	11,250
	<u>\$1,060,000</u>	<u>\$446,220</u>

The City has pledged future sewer customer revenues to repay the OWDA loans. The loans are payable solely from net revenues and are payable through 2029. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. The total principal and interest remaining to be paid on the loans is \$20,419,325. Principal and interest payments for the current year were \$2,457,982, net revenues were \$3,600,731, and total revenues were \$7,393,063.

The City has pledged future water customer revenues to repay the water system revenue refunding bonds. The bonds are payable solely from net revenues and are payable through 2031. Net revenues include all revenues received by the water utility less all operating expenses other than depreciation expense. The total principal and interest remaining to be paid on the bonds is \$13,209,589. Principal and interest payments for the current year were \$1,301,043, net revenues were \$1,382,671, and total revenues were \$5,156,086.

As of December 31, 2012, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$34,331,439.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 17 - INTERFUND TRANSFERS AND BALANCES

Interfund transfers during 2012 consisted of the following:

Transfers from	Transfers to					Total
	Major Fund			Other Nonmajor Governmental	Internal Service Fund	
	General	Police Expenditure	Fire Operating		Vehicle Maintenance	
Major Fund:						
General	\$0	\$2,023,785	\$3,460,872	\$1,307,910	\$79,704	\$6,872,271
Special Revenue Funds:						
Litter Control	1,748	0	0	0	0	1,748
Total All Funds	\$1,748	\$2,023,785	\$3,460,872	\$1,307,910	\$79,704	\$6,874,019

Generally, transfers are 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 unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and to segregate money for anticipated capital projects.

Interfund balances, as of December 31, 2012, consist of the following individual interfund receivables and payables:

Interfund Payable	Interfund Receivable					Total
	Major Fund	Other Governmental Funds	Enterprise	Internal Service Funds		
	General		Sewer	Vehicle Maintenance	Self Insurance	
Major Fund:						
General Fund	\$0	\$0	\$0	\$2,578	\$18,402	\$20,980
Police Expenditure	0	0	0	12,418	32,775	45,193
Fire Operating	11	0	0	2,141	9,657	11,809
Sanitation	0	0	0	4,400	2,887	7,287
Sewer	32	0	0	5,016	8,853	13,901
Water	3,890	0	0	5,808	21,413	31,111
Other Nonmajor						
Governmental	484	59,483	84,257	10,512	9,296	164,032
Vehicle Maintenance	0	0	0	0	176	176
Total All Funds	\$4,417	\$59,483	\$84,257	\$42,873	\$103,459	\$294,489

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 Vehicle Maintenance and Self Insurance Funds are a result of the liability from City Funds to those funds for services that were provided to the corresponding funds. These balances between funds are all considered to be current receivables/payables resulting from interfund activity and primarily represent reciprocal transactions between funds, for interfund services provide and used during the current year, for which billings and payments between funds did not occur until after year-end.

Certain interfund receivable/payables of a longer term repayment schedule also exist. The Cemetery Endowment Fund provided an interfund loan to the General Fund in the amount of \$223,260 in 2009 and \$238,860 in 2010 for the purchase of police cruisers. The Debt Service Fund will make repayments on the loan from portions of tax revenue.

NOTE 18 - 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 2012, 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 leased the Anchor Glass Facilities from the Authority, and sublet the facilities to the Anchor Glass Corporation. The lease was a twenty year lease ending in 2008, wherein the lease was paid in full. The City and the County provide operating subsidies to the Authority. During 2012, the City provided \$100,000 in operating subsidies to the Authority. Financial information is available from the Zanesville/Muskingum County Port Authority, Zanesville, Ohio

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

- 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 2012 the Authority received \$506,504 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.
- 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 19 - JOINT VENTURES

- A. Zanesville, South Zanesville and Springfield Joint Economic Development District (JEDD) was created by 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 over 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 of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 by 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 by 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.

NOTE 20 - RELATED PARTY ORGANIZATION

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.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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.

Although, the City is responsible for appointing the majority of the Board of Directors, the City cannot influence operations, nor does the Authority represent a potential financial benefit or burden to the City and therefore is presented as a related organization. The City serves as the taxing authority and may issue tax related debt on behalf of the Authority, but its role is limited to a ministerial function. The Authority may issue debt and determine its own budget. Complete financial information can be obtained from the South East Area Transit Authority, Zanesville, Ohio.

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, 2012.

B. Litigation

The City of Zanesville is currently party to pending litigation as confirmed by the City Law Director. The City management is of opinion that ultimate disposition of these claims and legal proceeding will not have a material effect, if any, on the financial condition of the City.

NOTE 22 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

The Debt Service Fund has a deficit fund balance of \$59,482 as of December 31, 2012. The deficit is the result of the recognition of interfund payable to the Cemetery Endowment Fund.

B. Compliance

The following budgetary violations were noted:

The General Fund had original appropriations in excess of estimated resources in the amount of \$273,311 which is contrary to Section 5705.39, Revised Code.

The Fire Operating Fund had original appropriations in excess of estimated resources in the amount of \$414,546 which is contrary to Section 5705.39, Revised Code.

City of Zanesville, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 23 - SIGNIFICANT COMMITMENTS

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$347,728
Police Expenditure Fund	56,940
Fire Operating Fund	8,732
Nonmajor Governmental Funds	153,950
Sanitation Fund	240,369
Sewer Fund	271,397
Water Fund	132,173
Internal Service Funds	10,292
Agency Funds	<u>4,677</u>
Total	<u><u>\$1,226,258</u></u>

**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

To the Mayor and City Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 20, 2013. We also noted the City adopted Governmental Standards Board Statements No. 63, *Financing Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No.66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of Zanesville's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2012-01 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the City of Zanesville's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 are required to be reported under *Government Auditing Standard*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 20, 2013

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

To the Mayor and City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Zanesville's compliance with the applicable requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could directly and materially affect each of the City of Zanesville's major federal programs for the year ended December 31, 2012. The Summary of Audit Results in the accompanying schedule of findings identifies the City's major federal programs.

Management's Responsibility

The City of Zanesville's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the City of Zanesville's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major program occurred. An audit includes examining, on a test basis, evidence about the City of Zanesville's compliance with these requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination on the City of Zanesville's compliance.

Opinion

In our opinion, the City of Zanesville complied, in all material respects, with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The City of Zanesville's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City of Zanesville's internal control over compliance with the applicable requirements that could directly and materially affect on a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City of Zanesville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 20, 2013

**CITY OF ZANESVILLE
MUSKINGUM COUNTY
SCHEDULE OF FINDINGS
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 significant deficiencies In internal control reported at the financial statement level (GAGAS)?	Yes
(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 significant deficiencies In internal control 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:	CDBG; CFDA #14.228 Assistance to Firefighters, CFDA #97.044
(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
FINDING NUMBER 2012-01

Significant Deficiency

The City's capital asset and debt accounting records did not accurately and completely support capital assets and internal service eliminations reported in the annual financial report. Therefore prior period adjustments were made to the capital assets and internal service eliminations for the year ended December 31, 2012. Failure to maintain accurate and complete capital asset and internal service accounting records can lead to the City reporting misstated balances. The City should maintain a current and accurate capital asset listing each year along with accurate internal service eliminations schedule..

Client Response: The computer codes have been adjusted and all future assets and adjustments will be reported.

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, 2012**

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-10-2ES-1	14.228	100,349	110,075
	A-F-11-2ES-1		144,000	78,894
	A-F-12-2ES-1		7,600	7,600
	A-Z-08-204-1		34,311	32,833
	Program income		46,944	99,933
			<u>333,204</u>	<u>329,335</u>
HOME Investment Partnership Program	A-C-10-2ES-1/2	14.239	290,144	290,291
	A-C-12-2ES-1/2		5,000	5,000
			<u>295,144</u>	<u>295,291</u>
Total U.S. Department of Housing and Urban Development			628,348	624,626
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Direct Award				
Airport Improvement Program	3-39-0097-0705	20.106	790,402	884,122
			<u>790,402</u>	<u>884,122</u>
Pass through Ohio Department of Transportation				
Highway Planning and Construction	MUS CR 146	20.205	19,298	19,298
	MUS CR 2004		198,447	198,447
			<u>217,745</u>	<u>217,745</u>
Total U.S. Department of Transportation			1,008,147	1,101,867
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Pass through Ohio Department of Justice				
Public Safety Grant	n/a	16.710	60,020	60,020
			<u>60,020</u>	<u>60,020</u>
Pass through Ohio Department of Public Safety				
Edward Bryne Memorial Justice Assistance Grant Program	2011-DJBX-2675	16.738	14,114	14,114
ARRA - Edward Bryne Memorial JAG Program	2009-SB-B9-1112	16.804	42,704	42,704
			<u>56,818</u>	<u>56,818</u>
Total U.S. Department of Justice			116,838	116,838
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Direct Award				
Assistance to Firefighters Grant	EMW2011FV04667	97.044	676,013	676,013
			<u>676,013</u>	<u>676,013</u>
Total U. S. Department of Homeland Security			676,013	676,013
Total Federal Awards Expenditures			<u>2,429,346</u>	<u>2,519,344</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, 2012 were \$17,928 in principal and related interest for outstanding Housing Program loans.

The City had the following loan balances outstanding at December 31, 2012:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
CDBG Economic Development Revolving Loan Fund Program	14.228	\$ 58,041
CDBG Housing Program	14.228	47,418
Total		<u>\$ 105,459</u>

**CITY OF ZANESVILLE
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 SECTION 315(b)
December 31, 2012**

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2011-01	Significant Deficiency Capital assets needing prior period adjustment	No	Not Corrected. Cited in current report as finding 2012-01



Dave Yost • 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
NOVEMBER 7, 2013**