

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2012

BRETT REED, CITY AUDITOR



Dave Yost • Auditor of State

Members of Council
City of Jackson
145 Broadway Street
Jackson, Ohio 45640

We have reviewed the *Independent Auditor's Report* of the City of Jackson, Jackson County, prepared by Julian & Grube, Inc., for the audit period January 1, 2012 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 Jackson is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

July 23, 2013

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**CITY OF JACKSON
JACKSON COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

City of Jackson
145 Broadway Street
Jackson, Ohio 45640

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson County, Ohio, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the City of Jackson'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 misstatement, 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 of Jackson'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 of Jackson'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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the general 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 3 to the financial statements, during 2012, the City of Jackson adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to 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, and other knowledge we obtained during our audit of 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 other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013, on our consideration of the City of Jackson'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 of Jackson's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 14, 2013

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

The management's discussion and analysis of the City of Jackson's (the "City") 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:

- The total net position of the City increased \$1,411,108 from the restated net position at 2011 as described in Note 3. Net position of governmental activities increased \$459,418 or 3.52% from 2011 and net position of business-type activities increased \$951,690 or 2.49% from 2011.
- General revenues accounted for \$1,904,812 or 33.22% of total governmental activities revenue. Program specific revenues accounted for \$3,829,856 or 66.78% of total governmental activities revenue.
- The City had \$5,014,654 in expenses related to governmental activities; \$3,829,856 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,184,798 were offset by general revenues (primarily property and other local taxes and unrestricted grants and entitlements) of \$1,904,812.
- The general fund had revenues of \$3,465,325 in 2012. The general fund had expenditures and other financing uses of \$3,838,073 in 2012. The net decrease in fund balance for the general fund was \$372,748 or 15.06%.
- Net position for the business-type activities, which are made up of the water, sewer, and electric major enterprise funds and the railroad and garbage nonmajor enterprise funds, increased in 2012 by \$951,690. This increase in net position was due primarily to charges for service revenues being greater than expenses.
- The water fund had operating revenues of \$2,571,700 and operating expenses of \$1,944,302 in 2012. The water fund also had non-operating expenses of \$78,863. The net increase in net position for the water fund was \$548,535 or 9.59%.
- The sewer fund had operating revenues of \$2,485,660 and operating expenses of \$2,981,142 in 2012. The sewer fund also had net non-operating expenses of \$65,865. The net decrease in net position for the sewer fund was \$561,347 or 5.33%.
- The electric fund had operating revenues of \$16,928,363 and operating expenses of \$15,594,937 in 2012. The electric fund also had non-operating revenues of \$38,979 and non-operating expenses of \$238,707. The net increase in net position for the electric fund was \$1,133,698 or 7.16%.
- In the general fund, the actual revenues and other financing sources were \$17,176 more than they were in the final budget and actual expenditures and other financing uses were \$673,005 less than the amount in the final budget. Budgeted revenues decreased \$45,188 from original to the final budget and budgeted expenditures increased \$539,679 from original to the final budget.

Using this Annual Financial Report

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

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

Governmental Funds

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 28 - 61 of this report.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position for 2012 compared to restated 2011:

	Net Position					
	2012	2011	2012	Restated 2011	2012	Restated 2011
	<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 7,581,204	\$ 7,674,207	\$ 20,731,290	\$ 20,512,853	\$ 28,312,494	\$ 28,187,060
Investment in Joint Venture	-	-	697,718	758,348	697,718	758,348
Capital assets, net	<u>7,496,443</u>	<u>7,219,611</u>	<u>34,833,898</u>	<u>35,474,540</u>	<u>42,330,341</u>	<u>42,694,151</u>
Total assets	<u>15,077,647</u>	<u>14,893,818</u>	<u>56,262,906</u>	<u>56,745,741</u>	<u>71,340,553</u>	<u>71,639,559</u>
Deferred outflows	<u>-</u>	<u>-</u>	<u>36,134</u>	<u>38,729</u>	<u>36,134</u>	<u>38,729</u>
<u>Liabilities</u>						
Long-term liabilities	773,091	990,650	16,324,654	17,880,604	17,097,745	18,871,254
Other liabilities	<u>182,423</u>	<u>197,716</u>	<u>815,256</u>	<u>696,426</u>	<u>997,679</u>	<u>894,142</u>
Total liabilities	<u>955,514</u>	<u>1,188,366</u>	<u>17,139,910</u>	<u>18,577,030</u>	<u>18,095,424</u>	<u>19,765,396</u>
Deferred inflows	<u>612,000</u>	<u>654,737</u>	<u>-</u>	<u>-</u>	<u>612,000</u>	<u>654,737</u>
<u>Net Position</u>						
Net investment in capital assets	7,334,030	6,831,174	21,562,870	21,241,185	28,896,900	28,072,359
Restricted	3,307,309	2,947,390	-	-	3,307,309	2,947,390
Unrestricted	<u>2,868,794</u>	<u>3,272,151</u>	<u>17,596,260</u>	<u>16,966,255</u>	<u>20,465,054</u>	<u>20,238,406</u>
Total net position	<u>\$ 13,510,133</u>	<u>\$ 13,050,715</u>	<u>\$ 39,159,130</u>	<u>\$ 38,207,440</u>	<u>\$ 52,669,263</u>	<u>\$ 51,258,155</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets and deferred outflows exceeded liabilities and deferred inflows by \$52,669,263. At year-end, net position was \$13,510,133 and \$39,159,130 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets net represented 59.34% of total assets. Capital assets include art work and historical treasures, land, construction in progress, land improvements, buildings, equipment, vehicles, and infrastructure. The net investment in capital assets at December 31, 2012, was \$7,334,030 and \$21,562,870 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

As of December 31, 2012, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net position, \$3,307,309 represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$2,868,794 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net position for years 2012 and 2011.

	Change in Net Position					
	2012 Governmental Activities	2011 Governmental Activities	2012 Business-Type Activities	Restated 2011 Business-Type Activities	2012 Total	Restated 2011 Total
Revenues						
Program revenues:						
Charges for services	\$ 2,183,726	\$ 2,165,240	\$ 22,440,097	\$ 21,789,944	\$ 24,623,823	\$ 23,955,184
Operating grants and contributions	1,355,130	1,085,571	-	-	1,355,130	1,085,571
Capital grants and contributions	291,000	59,153	-	-	291,000	59,153
Total program revenues	<u>3,829,856</u>	<u>3,309,964</u>	<u>22,440,097</u>	<u>21,789,944</u>	<u>26,269,953</u>	<u>25,099,908</u>
General revenues:						
Property and other local taxes	1,471,682	1,422,043	-	-	1,471,682	1,422,043
Unrestricted grants and entitlements	273,904	463,109	-	-	273,904	463,109
Investment earnings	100,430	181,968	38,979	549	139,409	182,517
Miscellaneous	58,796	60,864	286,595	418,487	345,391	479,351
Total general revenues	<u>1,904,812</u>	<u>2,127,984</u>	<u>325,574</u>	<u>419,036</u>	<u>2,230,386</u>	<u>2,547,020</u>
Total revenues	<u>5,734,668</u>	<u>5,437,948</u>	<u>22,765,671</u>	<u>22,208,980</u>	<u>28,500,339</u>	<u>27,646,928</u>
Expenses:						
General government	1,339,179	1,348,633	-	-	1,339,179	1,348,633
Security of persons and property	2,046,336	2,043,145	-	-	2,046,336	2,043,145
Public health and welfare	335,652	329,669	-	-	335,652	329,669
Transportation	731,081	775,021	-	-	731,081	775,021
Community environment	385,060	445,388	-	-	385,060	445,388
Leisure time activities	168,672	174,767	-	-	168,672	174,767
Interest and fiscal charges	8,674	16,818	-	-	8,674	16,818
Water	-	-	2,031,060	1,930,811	2,031,060	1,930,811
Sewer	-	-	3,055,652	2,999,220	3,055,652	2,999,220
Electric	-	-	15,841,539	15,833,302	15,841,539	15,833,302
Nonmajor enterprise	-	-	1,146,326	915,548	1,146,326	915,548
Total expenses	<u>5,014,654</u>	<u>5,133,441</u>	<u>22,074,577</u>	<u>21,678,881</u>	<u>27,089,231</u>	<u>26,812,322</u>
Special item -						
AMP-Ohio stranded cost	-	-	-	(2,276,543)	-	(2,276,543)
Transfers	(260,596)	(60,596)	260,596	60,596	-	-
Change in net position	459,418	243,911	951,690	(1,685,848)	1,411,108	(1,441,937)
Net position at						
beginning of year (restated)	<u>13,050,715</u>	<u>12,806,804</u>	<u>38,207,440</u>	<u>39,893,288</u>	<u>51,258,155</u>	<u>52,700,092</u>
Net position at end of year	<u>\$ 13,510,133</u>	<u>\$ 13,050,715</u>	<u>\$ 39,159,130</u>	<u>\$ 38,207,440</u>	<u>\$ 52,669,263</u>	<u>\$ 51,258,155</u>

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Governmental Activities

Governmental activities net position increased \$459,418 in 2012.

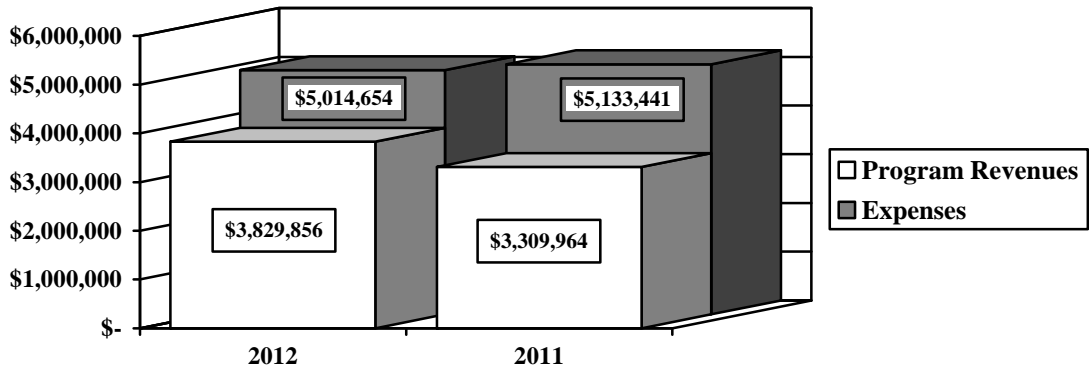
Security of persons and property, which primarily supports the operations of the police department accounted for \$2,046,336 of the total expenses of the City. These expenses were partially funded by \$77,159 in direct charges to users of the services and \$470 in operating grants and contributions. Transportation expenses totaled \$731,081. Transportation expenses were funded by \$839,013 in direct charges to users of the services, primarily related to right-of-ways and \$325,960 in operating grants and contributions.

The state and federal government, along with a private donor, contributed to the City a total of \$1,355,130 in operating grants and contributions. The City received \$291,000 in capital grants and contributions from a private donor in the form of artwork and historical treasures.

General revenues totaled \$1,904,812, and amounted to 33.22% of total governmental revenues. These revenues primarily consist of property and other local tax revenue of \$1,471,682. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government funds, making up \$273,904.

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

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF JACKSON, OHIO

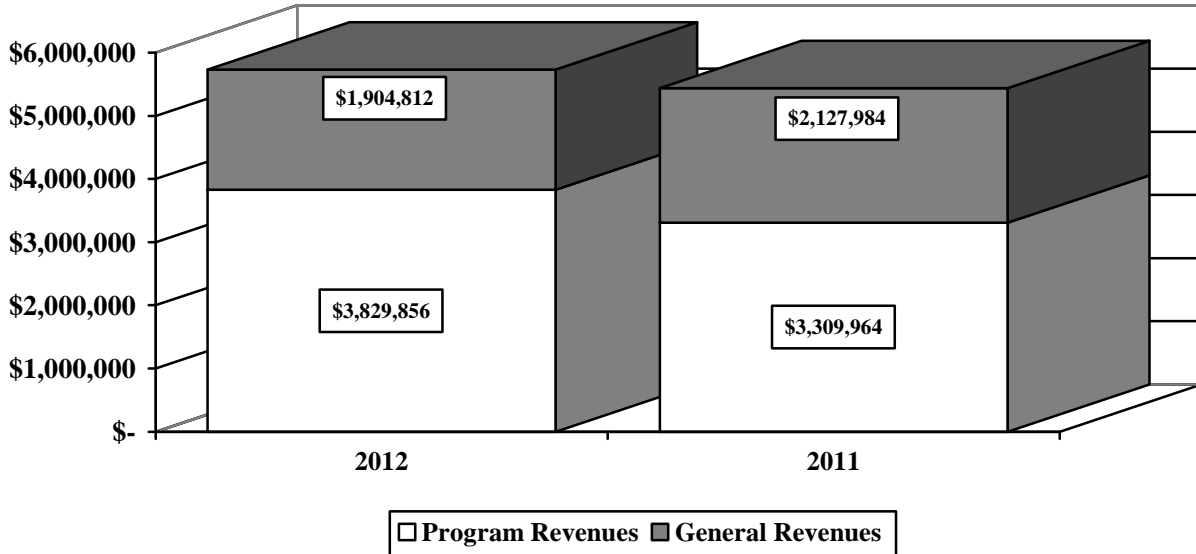
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Governmental Activities

	Total Cost of Services <u>2012</u>	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2012</u>	Net Cost of Services <u>2011</u>
Program Expenses:				
General government	\$ 1,339,179	\$ 1,348,633	\$ (157,192)	\$ 183,823
Security of persons and property	2,046,336	2,043,145	1,968,707	1,935,689
Public health and welfare	335,652	329,669	273,652	250,555
Transportation	731,081	775,021	(433,892)	(411,998)
Community environment	385,060	445,388	(68,260)	(254,585)
Leisure time activity	168,672	174,767	(406,891)	103,175
Interest and fiscal charges	<u>8,674</u>	<u>16,818</u>	<u>8,674</u>	<u>16,818</u>
Total Expenses	<u>\$ 5,014,654</u>	<u>\$ 5,133,441</u>	<u>\$ 1,184,798</u>	<u>\$ 1,823,477</u>

The dependence upon general revenues for governmental activities is apparent, with 23.63% of expenses supported through taxes and other general revenues.

Governmental Activities - General and Program Revenues

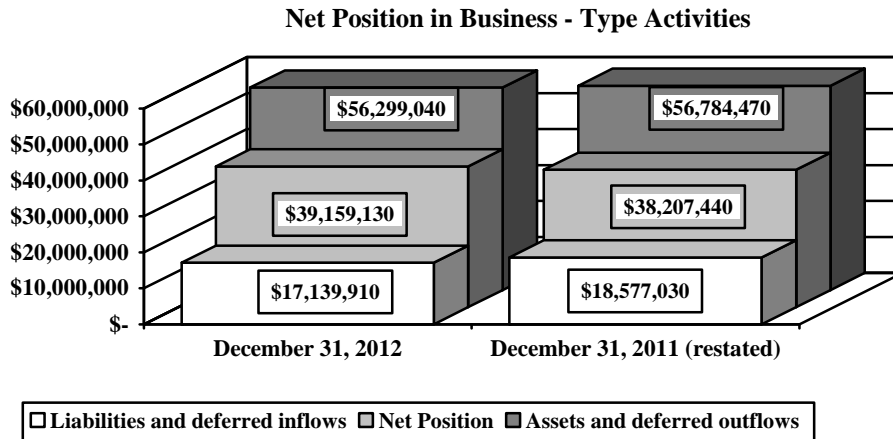


CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Business-type Activities

Business-type activities include the water, sewer, and electric major enterprise funds and the railroad and garbage nonmajor enterprise funds. These programs had program revenues of \$22,440,097, general revenues of \$325,574, and expenses of \$22,074,577 for 2012. The graph below shows the business-type activities assets and deferred outflows, liabilities and deferred inflows and net position at year-end 2012 and restated 2011.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 18) reported a combined fund balance of \$5,750,717 which is \$112,691 above last year's total of \$5,638,026. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

	<u>Balances</u> 12/31/12	<u>Balances</u> 12/31/11	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,102,895	\$ 2,475,643	\$ (372,748)
Other nonmajor governmental funds	<u>3,647,822</u>	<u>3,162,383</u>	<u>485,439</u>
Total	<u><u>\$ 5,750,717</u></u>	<u><u>\$ 5,638,026</u></u>	<u><u>\$ 112,691</u></u>

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

General Fund

The City's general fund balance remained fairly stable with a decrease of \$372,748. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012</u>	<u>2011</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,063,286	\$ 1,054,456	0.84 %
Charges for services	1,878,383	1,876,592	0.10 %
Licenses and permits	102,399	93,666	9.32 %
Fines and forfeitures	46,518	47,090	(1.21) %
Investment income	100,430	181,968	(44.81) %
Intergovernmental	233,857	356,584	(34.42) %
Other	<u>40,452</u>	<u>60,864</u>	(33.54) %
Total	<u>\$ 3,465,325</u>	<u>\$ 3,671,220</u>	(5.61) %

Tax revenue represents 30.69% of all general fund revenue. Tax revenue increased by 0.84% from prior year. The decrease in intergovernmental revenue is due to reduced support from the State. The decrease in other revenues is due to fewer miscellaneous receipts.

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

	<u>2012</u>	<u>2011</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,190,446	\$ 1,121,386	6.16 %
Security of persons and property	1,948,938	1,826,403	6.71 %
Transportation	151,915	153,680	(1.15) %
Community environment	28,146	37,255	(24.45) %
Leisure time activity	-	648	(100.00) %
Debt service	<u>2,295</u>	<u>2,294</u>	0.04 %
Total	<u>\$ 3,321,740</u>	<u>\$ 3,141,666</u>	5.73 %

Total expenditures remained relatively unchanged with an increase of 5.73% from 2011. The largest expenditure line item, security of persons and property increased 6.71%.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

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 of conditions change.

The City made several revisions to the original appropriations approved by City Council. Overall, these changes resulted in an increase from the original budget of \$9,200, excluding transfers and advances out. The City's general fund actual expenditures were \$333,005 less than appropriations, excluding transfers out, due to conservative spending.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities.

The water fund had operating revenues of \$2,571,700 and operating expenses of \$1,944,302 in 2012. The water fund also had non-operating expenses of \$78,863. The net increase in net position for the water fund was \$548,535 or 9.59%.

The sewer fund had operating revenues of \$2,485,660 and operating expenses of \$2,981,142 in 2012. The sewer fund also had net non-operating expenses of \$65,865. The net decrease in net position for the sewer fund was \$561,347 or 5.33%.

The electric fund had operating revenues of \$16,928,363 and operating expenses of \$15,594,937 in 2012. The electric fund also had non-operating revenues of \$38,979 and non-operating expenses of \$238,707. The net increase in net position for the electric fund was \$1,133,698 or 7.16%.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$42,330,341 (net of accumulated depreciation) invested in land, art work and historical treasures, construction in progress, land improvements, buildings, equipment, vehicles, and infrastructure. Of this total, \$7,496,443 was reported in governmental activities and \$34,833,898 was reported in business-type activities.

CITY OF JACKSON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

The following table shows 2012 capital asset balances compared to 2011:

**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,171,968	\$ 1,171,968	\$ 3,122,332	\$ 3,122,332	\$ 4,294,300	\$ 4,294,300
Art work and historical treasures	291,000	-	-	-	291,000	-
Land improvements	207,636	218,172	20,859	21,784	228,495	239,956
Buildings	1,465,668	1,489,580	590,105	609,024	2,055,773	2,098,604
Equipment	430,442	408,849	1,021,051	797,216	1,451,493	1,206,065
Infrastructure	3,363,565	3,498,410	29,441,815	26,923,233	32,805,380	30,421,643
Vehicles	545,414	432,632	562,763	370,579	1,108,177	803,211
Construction in progress	20,750	-	74,973	3,630,372	95,723	3,630,372
Totals	<u>\$ 7,496,443</u>	<u>\$ 7,219,611</u>	<u>\$ 34,833,898</u>	<u>\$ 35,474,540</u>	<u>\$ 42,330,341</u>	<u>\$ 42,694,151</u>

The City's largest capital asset category is infrastructure which includes roads, water lines, and sewer lines. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 77.50% of the City's total capital assets. See Note 7 to the basic financial statements for additional capital asset detail.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Notes payable	\$ 162,413	\$ 388,437
Police and Fire Pension Liability	32,991	33,856
Total long-term obligations	<u>\$ 195,404</u>	<u>\$ 422,293</u>
	<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 5,232,254	\$ 5,687,140
Notes payable	467,868	550,725
OWDA loans	7,570,906	7,995,490
Total long-term obligations	<u>\$ 13,271,028</u>	<u>\$ 14,233,355</u>

See Note 12 to the basic financial statements for detail on the City's long-term obligations.

CITY OF JACKSON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

Economic Conditions and Outlook

The City's administration considers the impact of various economic factors when establishing the 2013 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the 2013 budget. The primary objectives include continued improvement to constituent service delivery as well as long-term fiscal stability.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue—local property taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. Furthermore, the City's investment earnings, which were once a significant source of revenue for the City have drastically decreased over the past several years. With no expectation of interest rates increasing substantially in the near future, this will continue to remain an issue for the City.



The average unemployment rate for Jackson County in 2012 was 8.5% compared to the 6.8% State of Ohio average. The City Auditor anticipates the 2012 rate to continue through 2013 with the potential for it to increase during the year. In order to meet these challenges, further cost containment and/or revenue enhancement actions will be essential. With the continuation of conservative budgeting practices and constantly looking for ways to generate additional revenue, the City's financial position is anticipated to remain stable in future years.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the city's finances and to show the city's accountability for the money it receives. If you have questions about this report, please contact the City of Jackson's Auditor's Office by calling (740) 286-2423 or by writing the City Auditor at 145 Broadway Street, Jackson, Ohio 45640-1656.

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 5,220,364	\$ 17,466,301	\$ 22,686,665
Receivables:			
Real and other taxes	722,531	-	722,531
Accounts	108,808	2,079,580	2,188,388
Accrued interest	946	-	946
Due from other governments	972,741	-	972,741
Loans receivable	4,354	-	4,354
Materials and supplies inventory	68,162	691,907	760,069
Internal balance	483,298	(483,298)	-
Restricted assets:			
Cash with fiscal and escrow agents	-	550,322	550,322
Customer deposits	-	426,478	426,478
Investment in joint venture	-	697,718	697,718
Capital assets:			
Land and construction in progress	1,483,718	3,197,305	4,681,023
Depreciable capital assets, net	6,012,725	31,636,593	37,649,318
Total capital assets, net	<u>7,496,443</u>	<u>34,833,898</u>	<u>42,330,341</u>
Total assets	<u>15,077,647</u>	<u>56,262,906</u>	<u>71,340,553</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	-	36,134	36,134
Total deferred outflows of resources	<u>-</u>	<u>36,134</u>	<u>36,134</u>
Liabilities:			
Accounts payable	950	150,979	151,929
Accrued wages and benefits payable	100,595	111,246	211,841
Due to other governments	80,747	75,488	156,235
Accrued interest payable	131	18,289	18,420
Claims payable	-	32,776	32,776
Customer deposits payable	-	426,478	426,478
Long-term liabilities:			
Due within one year	159,376	1,627,678	1,787,054
Due in more than one year	613,715	14,521,976	15,135,691
Total liabilities	<u>955,514</u>	<u>16,964,910</u>	<u>17,920,424</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year . .	612,000	-	612,000
Total deferred inflows of resources	<u>612,000</u>	<u>-</u>	<u>612,000</u>
Net position:			
Net investment in capital assets	7,334,030	21,562,870	28,896,900
Restricted for:			
Community development	754,456	-	754,456
Youth arts program	500,365	-	500,365
Cemetery	515,509	-	515,509
Transportation projects	398,937	-	398,937
Public safety	267,512	-	267,512
Cemetery endowment:			
Nonexpendable	100,000	-	100,000
Expendable	320,929	-	320,929
Other purposes	449,601	-	449,601
Unrestricted	2,868,794	17,596,260	20,465,054
Total net position	<u>\$ 13,510,133</u>	<u>\$ 39,159,130</u>	<u>\$ 52,669,263</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government.	\$ 1,339,179	\$ 1,166,102	\$ 330,269	\$ -
Security of persons and property . . .	2,046,336	77,159	470	-
Public health and welfare	335,652	53,419	8,581	-
Transportation.	731,081	839,013	325,960	-
Community environment	385,060	5,882	156,438	291,000
Leisure time activity.	168,672	42,151	533,412	-
Interest and fiscal charges.	8,674	-	-	-
Total governmental activities	<u>5,014,654</u>	<u>2,183,726</u>	<u>1,355,130</u>	<u>291,000</u>
Business-type activities:				
Water.	2,031,060	2,555,561	-	-
Sewer.	3,055,652	2,477,803	-	-
Electric.	15,841,539	16,702,110	-	-
Other business-type activities:				
Garbage.	780,510	696,603	-	-
Railroad.	365,816	8,020	-	-
Total business-type activities	<u>22,074,577</u>	<u>22,440,097</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 27,089,231</u>	<u>\$ 24,623,823</u>	<u>\$ 1,355,130</u>	<u>\$ 291,000</u>

General revenues:

- Property taxes levied for:
 - General purposes
 - Cemetery.
 - Fire Protection.
 - Other purposes.
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers.

Change in net position

Net position at beginning of year (restated) .

Net position at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ 157,192	\$ -	\$ 157,192
(1,968,707)	-	(1,968,707)
(273,652)	-	(273,652)
433,892	-	433,892
68,260	-	68,260
406,891	-	406,891
(8,674)	-	(8,674)
<u>(1,184,798)</u>	<u>-</u>	<u>(1,184,798)</u>
-	524,501	524,501
-	(577,849)	(577,849)
-	860,571	860,571
-	(83,907)	(83,907)
-	(357,796)	(357,796)
<u>-</u>	<u>365,520</u>	<u>365,520</u>
(1,184,798)	365,520	(819,278)
1,069,421	-	1,069,421
171,126	-	171,126
162,162	-	162,162
68,973	-	68,973
273,904	-	273,904
100,430	38,979	139,409
58,796	286,595	345,391
<u>1,904,812</u>	<u>325,574</u>	<u>2,230,386</u>
(260,596)	260,596	-
<u>1,644,216</u>	<u>586,170</u>	<u>2,230,386</u>
459,418	951,690	1,411,108
<u>13,050,715</u>	<u>38,207,440</u>	<u>51,258,155</u>
<u>\$ 13,510,133</u>	<u>\$ 39,159,130</u>	<u>\$ 52,669,263</u>

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 1,987,856	\$ 3,232,508	\$ 5,220,364
Receivables:			
Real and other taxes	389,297	333,234	722,531
Accounts	72,431	36,377	108,808
Interfund loans	155,000	-	155,000
Accrued interest	846	100	946
Due from other governments	79,793	892,948	972,741
Loans receivable	4,354	-	4,354
Materials and supplies inventory	2,123	66,039	68,162
Total assets	<u>\$ 2,691,700</u>	<u>\$ 4,561,206</u>	<u>\$ 7,252,906</u>
Liabilities:			
Accounts payable	\$ 950	\$ -	\$ 950
Accrued wages and benefits payable	81,505	19,090	100,595
Due to other governments	61,518	19,229	80,747
Total liabilities	<u>143,973</u>	<u>38,319</u>	<u>182,292</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year . . .	330,000	282,000	612,000
Delinquent property tax revenue not available . .	55,435	47,372	102,807
Intergovernmental revenue not available	59,397	545,693	605,090
Total deferred inflows of resources	<u>444,832</u>	<u>875,065</u>	<u>1,319,897</u>
Fund balances:			
Nonspendable	36,897	166,039	202,936
Restricted	-	2,664,801	2,664,801
Committed	-	816,982	816,982
Assigned	1,169,408	-	1,169,408
Unassigned	896,590	-	896,590
Total fund balances	<u>2,102,895</u>	<u>3,647,822</u>	<u>5,750,717</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,691,700</u>	<u>\$ 4,561,206</u>	<u>\$ 7,252,906</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances		\$	5,750,717
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,496,443
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Real and other taxes receivable	\$	102,807	
Intergovernmental receivable		605,090	
Total		605,090	707,897
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			328,298
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(131)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(577,687)	
Police and fire pension liability		(32,991)	
Notes payable		(162,413)	
Total		(773,091)	(773,091)
Net position of governmental activities		\$	13,510,133

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Real and other taxes.	\$ 1,063,286	\$ 397,503	\$ 1,460,789
Intergovernmental.	233,857	997,191	1,231,048
Charges for services.	1,878,383	136,272	2,014,655
Fines and forfeitures	46,518	2,178	48,696
Licenses and permits	102,399	-	102,399
Investment income.	100,430	18,110	118,540
Rental income	300	-	300
Contributions and donations.	-	528,560	528,560
Other	40,152	17,676	57,828
Total revenues	3,465,325	2,097,490	5,562,815
Expenditures:			
Current:			
General government	1,190,446	-	1,190,446
Security of persons and property	1,948,938	134,517	2,083,455
Public health and welfare.	-	335,097	335,097
Transportation	151,915	644,819	796,734
Community environment	28,146	356,914	385,060
Leisure time activity	-	176,901	176,901
Debt service:			
Principal retirement.	865	226,024	226,889
Interest and fiscal charges	1,430	14,916	16,346
Total expenditures	3,321,740	1,889,188	5,210,928
Excess of revenues over expenditures.	143,585	208,302	351,887
Other financing sources (uses):			
Sale of capital assets.	-	21,400	21,400
Transfers in	-	260,283	260,283
Transfers (out).	(516,333)	(4,546)	(520,879)
Total other financing sources (uses)	(516,333)	277,137	(239,196)
Net change in fund balances	(372,748)	485,439	112,691
Fund balances at beginning of year	2,475,643	3,162,383	5,638,026
Fund balances at end of year	\$ 2,102,895	\$ 3,647,822	\$ 5,750,717

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, 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	\$	112,691
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 348,763	
Current year depreciation	<u>(360,175)</u>	
Total		(11,412)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to increase net position.		
		288,244
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Real and other taxes	10,893	
Intergovernmental revenues	<u>(148,684)</u>	
Total		(137,791)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		226,889
In the statement of activities, interest is accrued on outstanding notes, whereas in governmental funds, an interest expenditure is reported when due.		
		7,672
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(9,330)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		<u>(17,545)</u>
Change in net position of governmental activities	\$	<u>459,418</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Real and other taxes.	\$ 1,072,132	\$ 1,058,275	\$ 1,063,542	\$ 5,267
Intergovernmental.	235,746	232,699	233,857	1,158
Charges for services.	1,893,554	1,869,080	1,878,383	9,303
Fines and forfeitures	46,894	46,288	46,518	230
Licenses and permits	103,226	101,892	102,399	507
Investment earnings.	106,051	104,680	105,201	521
Other.	38,600	38,101	38,291	190
Total revenues	<u>3,496,203</u>	<u>3,451,015</u>	<u>3,468,191</u>	<u>17,176</u>
Expenditures:				
Current:				
General government	1,350,693	1,359,893	1,199,894	159,999
Security of persons and property	2,098,000	2,098,000	1,955,584	142,416
Transportation	181,982	181,982	151,597	30,385
Debt service:				
Principal retirement.	900	900	865	35
Interest and fiscal charges	1,600	1,600	1,430	170
Total expenditures	<u>3,633,175</u>	<u>3,642,375</u>	<u>3,309,370</u>	<u>333,005</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(136,972)</u>	<u>(191,360)</u>	<u>158,821</u>	<u>350,181</u>
Other financing uses:				
Advances out.	(340,000)	(340,000)	-	340,000
Transfers out.	-	(530,479)	(530,479)	-
Total other financing uses.	<u>(340,000)</u>	<u>(870,479)</u>	<u>(530,479)</u>	<u>340,000</u>
Net change in fund balances	(476,972)	(1,061,839)	(371,658)	690,181
Fund balances at beginning of year	2,210,467	2,210,467	2,210,467	-
Prior year encumbrances appropriated	9,200	9,200	9,200	-
Fund balance at end of year	<u>\$ 1,742,695</u>	<u>\$ 1,157,828</u>	<u>\$ 1,848,009</u>	<u>\$ 690,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents . . .	\$ 2,608,754	\$ 1,645,517	\$ 12,107,335	\$ 384,216	\$ 16,745,822	\$ 720,479
Receivables:						
Accounts	322,520	314,308	1,382,667	60,085	2,079,580	-
Materials and supplies inventory	101,246	14,106	576,199	356	691,907	-
Restricted assets:						
Cash with fiscal and escrow agents	-	-	550,322	-	550,322	-
Customer deposits	67,388	63,632	274,888	20,570	426,478	-
Total current assets	<u>3,099,908</u>	<u>2,037,563</u>	<u>14,891,411</u>	<u>465,227</u>	<u>20,494,109</u>	<u>720,479</u>
Noncurrent assets:						
Investment in joint venture	-	-	697,718	-	697,718	-
Capital assets:						
Land and construction in progress	1,237,499	40,950	274,974	1,643,882	3,197,305	-
Depreciable capital assets, net	5,093,449	14,897,587	7,913,704	3,731,853	31,636,593	-
Total capital assets, net	<u>6,330,948</u>	<u>14,938,537</u>	<u>8,188,678</u>	<u>5,375,735</u>	<u>34,833,898</u>	<u>-</u>
Total noncurrent assets	<u>6,330,948</u>	<u>14,938,537</u>	<u>8,886,396</u>	<u>5,375,735</u>	<u>35,531,616</u>	<u>-</u>
Total assets	<u>9,430,856</u>	<u>16,976,100</u>	<u>23,777,807</u>	<u>5,840,962</u>	<u>56,025,725</u>	<u>720,479</u>
Deferred outflows of resources:						
Unamortized deferred charges on debt refunding	36,134	-	-	-	36,134	-
Total deferred outflows of resources	<u>36,134</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,134</u>	<u>-</u>
Liabilities:						
Current liabilities:						
Accounts payable	-	2,500	148,479	-	150,979	-
Accrued wages and benefits payable	27,195	34,804	37,289	11,958	111,246	-
Due to other governments	18,980	24,505	24,995	7,008	75,488	-
Interfund loans payable	-	-	-	155,000	155,000	-
Accrued interest payable	5,502	-	12,787	-	18,289	-
Compensated absences payable - current	27,197	69,643	66,531	4,990	168,361	-
General obligation bonds payable	175,000	-	-	-	175,000	-
OWDA loans payable	186,753	382,359	-	-	569,112	-
Notes payable	20,456	34,351	-	28,050	82,857	-
AMP-Ohio stranded cost payable - current	-	-	482,348	-	482,348	-
Claims payable	-	-	-	-	-	32,776
Payables from restricted assets:						
Revenue bonds payable	-	-	325,000	-	325,000	-
Customer deposits payable	67,388	63,632	274,888	20,570	426,478	-
Total current liabilities	<u>528,471</u>	<u>611,794</u>	<u>1,372,317</u>	<u>227,576</u>	<u>2,740,158</u>	<u>32,776</u>
Long-term liabilities:						
Compensated absences payable	86,765	162,155	217,411	7,192	473,523	-
General obligation bonds payable	1,446,671	-	-	-	1,446,671	-
Revenue bonds payable	-	-	3,285,583	-	3,285,583	-
OWDA loans payable	1,006,790	5,995,004	-	-	7,001,794	-
Notes payable	128,100	228,861	-	28,050	385,011	-
AMP-Ohio stranded cost payable	-	-	1,929,394	-	1,929,394	-
Total long-term liabilities	<u>2,668,326</u>	<u>6,386,020</u>	<u>5,432,388</u>	<u>35,242</u>	<u>14,521,976</u>	<u>-</u>
Total liabilities	<u>3,196,797</u>	<u>6,997,814</u>	<u>6,804,705</u>	<u>262,818</u>	<u>17,262,134</u>	<u>32,776</u>
Net position:						
Net investment in capital assets	3,367,178	8,297,962	4,578,095	5,319,635	21,562,870	-
Unrestricted	2,903,015	1,680,324	12,395,007	258,509	17,236,855	687,703
Total net position	<u>\$ 6,270,193</u>	<u>\$ 9,978,286</u>	<u>\$ 16,973,102</u>	<u>\$ 5,578,144</u>	<u>38,799,725</u>	<u>\$ 687,703</u>

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 the internal service amount	687,703
Amount owed to governmental activities	(328,298)
Net position of business-type activities	<u>\$ 39,159,130</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating revenues:						
Charges for services	\$ 2,555,561	\$ 2,477,803	\$ 16,702,110	\$ 704,623	\$ 22,440,097	\$ 209,743
Other operating revenues	16,139	7,857	226,253	35,596	285,845	-
Total operating revenues.	<u>2,571,700</u>	<u>2,485,660</u>	<u>16,928,363</u>	<u>740,219</u>	<u>22,725,942</u>	<u>209,743</u>
Operating expenses:						
Personal services	625,736	783,671	865,358	272,350	2,547,115	-
Fringe benefits.	296,796	419,863	457,850	185,106	1,359,615	253,605
Contract services.	283,476	262,203	12,416,665	184,335	13,146,679	-
Materials and supplies.	167,763	228,158	185,531	102,771	684,223	-
Utilities	65,258	343,521	10,544	3,027	422,350	-
Depreciation.	275,944	728,564	279,254	148,985	1,432,747	-
Other	229,329	215,162	1,379,735	-	1,824,226	-
Total operating expenses.	<u>1,944,302</u>	<u>2,981,142</u>	<u>15,594,937</u>	<u>896,574</u>	<u>21,416,955</u>	<u>253,605</u>
Operating income (loss)	<u>627,398</u>	<u>(495,482)</u>	<u>1,333,426</u>	<u>(156,355)</u>	<u>1,308,987</u>	<u>(43,862)</u>
Nonoperating revenues (expenses):						
Interest and fiscal charges	(78,863)	(66,615)	(178,077)	(3,168)	(326,723)	-
Gain on sale of capital assets.	-	750	-	-	750	-
Interest income.	-	-	38,979	-	38,979	-
Other nonoperating expenses	-	-	-	(243,952)	(243,952)	-
Investment in joint venture.	-	-	(60,630)	-	(60,630)	-
Total nonoperating revenues (expenses).	<u>(78,863)</u>	<u>(65,865)</u>	<u>(199,728)</u>	<u>(247,120)</u>	<u>(591,576)</u>	<u>-</u>
Income (loss) before transfers.	548,535	(561,347)	1,133,698	(403,475)	717,411	(43,862)
Transfer in	-	-	-	260,596	260,596	-
Change in net position	548,535	(561,347)	1,133,698	(142,879)	978,007	(43,862)
Net position at beginning of year (restated)	<u>5,721,658</u>	<u>10,539,633</u>	<u>15,839,404</u>	<u>5,721,023</u>		<u>731,565</u>
Net position at end of year	<u>\$ 6,270,193</u>	<u>\$ 9,978,286</u>	<u>\$ 16,973,102</u>	<u>\$ 5,578,144</u>		<u>\$ 687,703</u>
Some amounts reported for business-type activities in the statement of net position are different because the net expense of the internal service fund is reported with business-type activities.					<u>(26,317)</u>	
Change in net position of business-type activities.					<u>\$ 951,690</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:						
Cash received from customers	\$ 2,431,443	\$ 2,376,406	\$ 16,671,661	\$ 700,039	\$ 22,179,549	\$ 209,743
Cash received from other operations	16,139	1,292	222,929	44,364	284,724	-
Cash payments for employee services and benefits	(919,760)	(1,190,867)	(13,579,115)	(456,374)	(16,146,116)	-
Cash payments for goods and services	(516,640)	(818,236)	(39,591)	(316,438)	(1,690,905)	-
Cash payments for claims	-	-	-	-	-	(240,605)
Cash payments for other expenses	(229,329)	(215,162)	(1,193,461)	-	(1,637,952)	-
Net cash provided by (used in) operating activities	781,853	153,433	2,082,423	(28,409)	2,989,300	(30,862)
Cash flows from noncapital financing activities:						
Cash received from transfers in	-	-	-	260,596	260,596	-
Net cash provided by noncapital financing activities	-	-	-	260,596	260,596	-
Cash flows from capital and related financing activities:						
Capital contributions	-	-	-	24,933	24,933	-
Gain on sale of capital assets	-	750	-	-	750	-
Acquisition of capital assets	(82,526)	(228,662)	(219,994)	(225,058)	(756,240)	-
Proceeds from OWDA loans	66,031	-	-	-	66,031	-
Principal retirement on OWDA loans	(112,051)	(378,564)	-	-	(490,615)	-
Principal retirement on notes	(20,456)	(34,351)	-	(28,050)	(82,857)	-
Principal retirement on general obligation bonds	(175,000)	-	-	-	(175,000)	-
Principal retirement on revenue bonds	-	-	(320,417)	-	(320,417)	-
Interest and fiscal charges	(71,964)	(66,615)	(162,290)	(3,168)	(304,037)	-
Net cash used in capital and related financing activities	(395,966)	(707,442)	(702,701)	(231,343)	(2,037,452)	-
Cash flows from investing activities:						
Interest received	-	-	38,979	-	38,979	-
Net cash provided by investing activities	-	-	38,979	-	38,979	-
Net increase (decrease) in cash and cash equivalents	385,887	(554,009)	1,418,701	844	1,251,423	(30,862)
Cash and cash equivalents at beginning of year	2,290,255	2,263,158	11,513,844	403,942	16,471,199	751,341
Cash and cash equivalents at end of year	\$ 2,676,142	\$ 1,709,149	\$ 12,932,545	\$ 404,786	\$ 17,722,622	\$ 720,479

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**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds					Internal Service Funds
	Water	Sewer	Electric	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 627,398	\$ (495,482)	\$ 1,333,426	\$ (156,355)	\$ 1,308,987	\$ (43,862)
Adjustments:						
Depreciation.	275,944	728,564	279,254	148,985	1,432,747	-
Changes in assets and liabilities:						
Decrease (increase) in materials and supplies inventory	(143)	18,078	95,270	(104)	113,101	-
Decrease (increase) in accounts receivable.	(128,078)	(112,212)	142,361	2,739	(95,190)	-
Increase (decrease) in accounts payable	-	(2,432)	61,214	-	58,782	-
Increase (decrease) in accrued wages and benefits	(975)	606	725	279	635	-
Increase (decrease) in intergovernmental payable.	(762)	(1,047)	1,293	(819)	(1,335)	-
Increase in compensated absences payable.	4,509	13,108	23,541	1,622	42,780	-
Increase in customer deposits payable.	3,960	4,250	10,140	1,445	19,795	-
Increase in AMP-Ohio stranded costs payable.	-	-	135,199	-	135,199	-
Decrease in contracts payable.	-	-	-	(26,201)	(26,201)	-
Increase in claims payable.	-	-	-	-	-	13,000
Net cash provided by (used in) operating activities	<u>\$ 781,853</u>	<u>\$ 153,433</u>	<u>\$ 2,082,423</u>	<u>\$ (28,409)</u>	<u>\$ 2,989,300</u>	<u>\$ (30,862)</u>

Non-cash transactions

During 2012, the Sewer and Electric funds purchased \$2,500 and \$87,265, respectively in capital assets on account.
During 2011, the Sewer fund purchased \$53,900 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF JACKSON
JACKSON COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2012

	<u>Agency</u>
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 14,705
Total assets	<u>\$ 14,705</u>
Liabilities:	
Due to others.	\$ 14,705
Total liabilities	<u>\$ 14,705</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - REPORTING ENTITY

The City of Jackson (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The City is operated under a statutory form of government and is a municipal corporation under the laws of the State of Ohio. The City operates under a Mayor/Council form of government. The City serves as the County Seat.

The Mayor, Auditor, and Treasurer, all with four year terms, and an eight member Council, plus a Council President, with two year terms, are elected. Department directors and public members of various boards and commissions are appointed by the Mayor.

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

The primary government consists of all funds and departments that are not legally separate from the City. Services provided by the primary government include police and fire protection, cemetery services, street maintenance and repairs, community and economic development, parks and recreation, and water, sewer, garbage, and electrical services. The City also maintains a rail spur. A staff provides support (i.e., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the City Mayor and City Auditor through administrative and managerial requirements and procedures, and all are included as part of the reporting entity.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. No potential component units met these criteria.

The City's Electric Utility Enterprise Fund has entered into an ongoing joint venture agreement called the Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV5), with 41 other Ohio municipalities for the construction, installation, and operation of a 42 megawatt hydroelectric generator and related facilities at the Belleville locks and dam on the Ohio River. Additional information concerning this joint venture is presented in Note 15.

The City is also associated with two insurance purchasing pools, the Ohio Rural Water Association (ORWA) Workers' Compensation Group Rating Program and the Ohio Plan Healthcare Consortium.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Jackson have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The 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 activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

B. Fund Accounting

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

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than capital projects.

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 reports the following proprietary funds:

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

Water Fund -To account for water services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

Sewer Fund -To account for sanitary sewer services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

Electric Fund -To account for electric services provided to individuals and commercial users. The costs of providing these services are financed primarily through user charges.

The other enterprise funds of the City account for other fee-based services provided by the City and grants, including garbage pickup and railroad activities.

Internal Service Fund - Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service fund is used to account for the reimbursement to employees for deductibles on their health insurance.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

The City's fiduciary funds are classified as agency funds. The agency funds account for insurance company proceeds to pay for the removal of unsafe structures due to fire and refundable bonds for street excavation.

C. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) 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, deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of 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 position. 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 JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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.

The non-exchange transactions, in which the City receives value without directly giving equal value in return, includes property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the year in which the taxes are levied. Revenues from grants and entitlements are recognized in the year 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 reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue resources are considered to be both measurable and available at year end: interest, federal and state grants, state-levied locally shared taxes (including motor vehicle registration fees and gasoline taxes), and fees and rentals.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, have been recorded as deferred inflows on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

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

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

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

E. Budgetary Process

All funds, other than the 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.

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

The certificate of estimated resources establishes a limit on the amount the City Council may appropriate. The appropriations resolution is the City Council's authorization to spend resources and sets annual limits on the expenditures plus encumbrances at the level of control selected by the City Council. The legal level of budgetary control is 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 City 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 the 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 budgeted amounts represent the final appropriation amounts passed by City Council during the year.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During 2012, investments were limited to non-negotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on current share price. Nonparticipating investment contracts such as non-negotiable certificates of deposit are reported at cost.

Provisions of the Ohio Revised Code restrict investment procedures. During 2012, interest was distributed to the general fund, certain special revenue funds, capital projects funds, and enterprise funds. Interest revenue credited to the general fund during 2012 amounted to \$100,430, of which \$85,318 was assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

G. Receivables and Payables

Receivables and payables to be recorded on the City's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and, in the case of receivables, collectability.

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

H. Inventory of Supplies

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

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 recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed. The City had no prepaid items at December 31, 2012.

J. 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.

Certain resources set aside for the repayment of enterprise fund mortgage revenue bonds are classified as restricted assets on the statement of fund net position - proprietary funds because their use is limited by applicable bond covenants. Restricted assets of the City also include cash held for customer deposits and cash with fiscal and escrow agents.

K. Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities columns 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 fund.

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 backtrending (i.e., estimating 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 values as of the date received. 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 capitalized. The City's capitalization threshold is \$1,000.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

All reported capital assets are depreciated except for land, artwork and historical treasures and construction in progress. Improvements are depreciated over the remaining useful life 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	25-50 years	25-50 years
Buildings	25-50 years	25-50 years
Equipment	5-20 years	5-20 years
Infrastructure	25-60 years	25-60 years
Vehicles	5-12 years	5-12 years

The City's infrastructure consists of streets, curbs and gutters, traffic lights, water, sewer, and storm water lines and only includes infrastructure acquired after December 31, 1980.

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables." These 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.

M. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' 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 vacation time when earned for all employees with more than one year of service. The City records a liability for accumulated unused sick leave for employees after five years of service.

N. Accrued Liabilities and Long-Term Obligations

The City reports all payables, accrued liabilities, and long-term obligations in the government-wide financial statements and it reports all payables, accrued liabilities, and long-term obligations payable from proprietary funds in the proprietary fund financial statements.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences and special termination benefits that are paid from governmental funds are reported as a liability on the fund financial statements only to the extent that they are due for payment during the current year. The City recognizes long-term notes as a liability in the governmental fund financial statements when due.

O. Bond Premium/Discount and Accounting Loss

Bond premiums/discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt reported in the government-wide financial statements and enterprise funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resource or a deferred inflow of resources.

P. 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:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). 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) it employed to previously commit those amounts. 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.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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 nor 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 policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

Q. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the constitutional provisions or through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations or other governments. The amount restricted for other purposes includes the amounts restricted for the Lillian Jones Museum, continuing professional development, FEMA grants, flood mitigation and the visitor's center.

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

R. 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 function to another or within the same function are eliminated on the statement of activities. Payments for 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 fund. Flows of cash or goods from one fund to another without a requirement for repayment should be reported as internal 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 fund financial statements.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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

S. Estimates

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

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, electric, garbage, and railroad 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 nonoperating.

U. 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 the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities.

GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the City:

	Business-type Activities	Enterprise Funds	
		Water	Electric
Net assets as previously reported	\$ 38,395,031	\$ 5,791,775	\$ 15,956,878
Removal of unamortized bond issuance costs	(187,591)	(70,117)	(117,474)
Net position at January 1, 2012	\$ 38,207,440	\$ 5,721,658	\$ 15,839,404

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that 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.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and,
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the City has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At year end, the City had \$1,750 in undeposited cash on hand which is included on the financial statements of the City as part of “cash and cash equivalents”.

B. Cash and Cash Equivalents with Fiscal Agents

The City utilizes a fiscal agent to hold monies set aside for current and future debt service payments under provisions of the bond indentures in the electric fund. These monies are invested in U.S. Government money market funds.

C. Deposits with Financial Institutions

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 \$23,126,098 and the bank balance was \$23,159,323. Of the bank balance \$4,238,490 was covered by Federal depository insurance and \$18,920,833 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit 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.

D. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash as reported in the note above to cash as reported on the statement of net position as of December 31, 2012:

<u>Cash per note</u>	
Carrying amount of deposits	\$ 23,126,098
Cash and cash equivalents with fiscal agent	550,322
Cash on hand	1,750
Total	<u>\$ 23,678,170</u>
 <u>Cash per statement of net position</u>	
Governmental activities	\$ 5,220,364
Business type activities	18,443,101
Agency funds	14,705
Total	<u>\$ 23,678,170</u>

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 5 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Auditor collects property taxes on behalf of all taxing districts in the County, including the City of Jackson. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by deferred inflow of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by deferred inflows of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2012 was \$6.70 per \$1,000 of assessed value. The assessed values of real and public utility property for tax year 2012 are as follows:

Real property	\$ 113,248,100
Public utility real and personal property	<u>2,571,660</u>
Total assessed value	<u>\$ 115,819,760</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2012, consisted primarily of taxes, intergovernmental receivables arising from grants, loans, entitlements and shared revenues, interest on investments, and utility accounts. All intergovernmental receivables have been classified as “due from other governments” on the basic financial statements.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables are expected to be collected within one year, with the exception of delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$102,807. The financial statements reflect loans receivable of \$4,354. The loan is interest-free and is to be repaid over a period of thirty years.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 6 - RECEIVABLES - (Continued)

A summary of intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Community Housing Improvement Projects	\$ 393,425
FEMA	314,046
Local Government Funds	61,188
Gasoline Tax	104,392
Motor Vehicle License Tax	27,382
Homestead and Rollback	33,405
Permissive Tax	4,288
Miscellaneous	<u>34,615</u>
Total Governmental Activities	<u>\$ 972,741</u>

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CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 7 - CAPITAL ASSETS

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

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012
<u>Governmental Activities:</u>				
Non-Depreciable Capital Assets:				
Art work and historical treasures	\$ -	\$ 291,000	\$ -	\$ 291,000
Construction in progress	-	20,750	-	20,750
Land	1,171,968	-	-	1,171,968
Total Non-Depreciable Capital Assets	1,171,968	311,750	-	1,483,718
Depreciable Capital Assets:				
Land Improvements	363,025	-	-	363,025
Buildings	2,308,466	24,814	-	2,333,280
Equipment	1,324,381	97,762	(20,930)	1,401,213
Infrastructure	8,038,447	-	-	8,038,447
Vehicles	1,777,909	205,437	(12,925)	1,970,421
Total Depreciable Capital Assets	13,812,228	328,013	(33,855)	14,106,386
Accumulated Depreciation:				
Land Improvements	(144,853)	(10,536)	-	(155,389)
Buildings	(818,886)	(48,726)	-	(867,612)
Equipment	(915,532)	(73,919)	18,680	(970,771)
Infrastructure	(4,540,037)	(134,845)	-	(4,674,882)
Vehicles	(1,345,277)	(92,149)	12,419	(1,425,007)
Total Accumulated Depreciation	(7,764,585)	(360,175)	31,099	(8,093,661)
Total Depreciable Capital Assets, Net	6,047,643	(32,162)	(2,756)	6,012,725
Governmental Capital Assets, Net	\$ 7,219,611	\$ 279,588	\$ (2,756)	\$ 7,496,443

Depreciation expense was charged to governmental activities as follows:

<u>Governmental Activities:</u>	
General Government	\$ 186,418
Security of Persons and Property	111,097
Public Health Services	8,669
Transportation	34,611
Leisure Time Activities	19,380
Total Depreciation Expense	\$ 360,175

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 7 - CAPITAL ASSETS - (Continued)

	Balance 12/31/2011	Additions	Reductions	Balance 12/31/2012
<u>Business-Type Activities:</u>				
Non-Depreciable Capital Assets:				
Land	\$ 3,122,332	\$ -	\$ -	\$ 3,122,332
Construction in Progress	<u>3,630,372</u>	<u>217,620</u>	<u>(3,773,019)</u>	<u>74,973</u>
Total Non-Depreciable Capital Assets	<u>6,752,704</u>	<u>217,620</u>	<u>(3,773,019)</u>	<u>3,197,305</u>
Depreciable Capital Assets:				
Land Improvements	34,348	-	-	34,348
Buildings	1,108,127	-	-	1,108,127
Equipment	2,506,888	417,046	(7,410)	2,916,524
Infrastructure	34,366,097	3,615,451	-	37,981,548
Vehicles	<u>1,928,833</u>	<u>315,007</u>	<u>(107,930)</u>	<u>2,135,910</u>
Total Depreciable Capital Assets	<u>39,944,293</u>	<u>4,347,504</u>	<u>(115,340)</u>	<u>44,176,457</u>
Accumulated Depreciation:				
Land Improvements	(12,564)	(925)	-	(13,489)
Buildings	(499,103)	(18,919)	-	(518,022)
Equipment	(1,709,672)	(193,211)	7,410	(1,895,473)
Infrastructure	(7,442,864)	(1,096,869)	-	(8,539,733)
Vehicles	<u>(1,558,254)</u>	<u>(122,823)</u>	<u>107,930</u>	<u>(1,573,147)</u>
Total Accumulated Depreciation	<u>(11,222,457)</u>	<u>(1,432,747)</u>	<u>115,340</u>	<u>(12,539,864)</u>
Total Depreciable Capital Assets, Net	<u>28,721,836</u>	<u>2,914,757</u>	<u>-</u>	<u>31,636,593</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 35,474,540</u>	<u>\$ 3,132,377</u>	<u>\$ (3,773,019)</u>	<u>\$ 34,833,898</u>

Depreciation expense was charged to the enterprise funds as follows:

<u>Business-type activities:</u>	
Water	\$ 275,944
Sewer	728,564
Electric	279,254
Garbage	56,583
Railroad	<u>92,402</u>
Total Depreciation Expense	<u>\$ 1,432,747</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 8 - 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 Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 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. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. 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 \$369,664, \$367,676, and \$304,917, respectively; 92.06% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments on the basic financial statements. Contributions to the member-directed plan for 2012 were \$588 made by the City and \$420 made by the plan members.

B. Ohio Police and Fire 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 statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 8 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers were \$96,149 for the year ended December 31, 2012, \$93,383 for the year ended December 31, 2011, and \$88,651 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 91.81% has been contributed for police for 2012.

NOTE 9 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB 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 healthcare 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare 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-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their 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 healthcare plan.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$149,387, \$148,123, and \$197,299, respectively; 92.06% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

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 State Bill 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. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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 health care 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 statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the 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 to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

CITY OF JACKSON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 9 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care 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 healthcare benefits for police officers were \$50,903 for the year ended December 31, 2012, \$49,438 for the year ended December 31, 2011, and \$46,933 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 91.81% has been contributed for police for 2012. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Deferred Compensation Plans

City employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

B. Additional Insurance

The City provides \$20,000 in life insurance and accidental death and dismemberment insurance to its full-time employees working a minimum of twenty hours per week through Guardian Life Insurance Company.

C. Risk Pool Membership

The City provides comprehensive major medical insurance through Anthem Blue Cross Blue Shield as part of the Ohio Plan Healthcare Consortium. The City pays 94 percent of the total monthly premiums of \$1,705.00 for family coverage and \$609.00 for single coverage.

The City belongs to the Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - OTHER EMPLOYEE BENEFITS - (Continued)

As authorized by Section 9.833 of the Ohio Revised Code, the OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 74 and 65 members as of December 31, 2011 and 2010, respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 (the latest information available).

	2011	2010
Assets	\$1,459,791	\$1,355,131
Liabilities	(1,283,527)	(1,055,096)
Members’ Equity	\$176,264	\$300,035

You can read the complete audited financial statements for OPHC at the Plan’s website, www.ohioplan.org.

D. Compensated Absences

Vacation leave is earned at varying rates based upon length of service. A maximum number of vacation hours may be accumulated based on length of service. At the time of termination of employment or death, an employee (or his estate) is paid for his unused vacation leave.

Sick leave is earned at the rate of four and six tenths hours per eighty hours of service and can be accumulated without limit. In the case of death or retirement of an employee who has five to nine years of service, the employee or his estate is paid for fifty percent of his accumulated sick leave, and an employee who has ten years or more is paid one hundred percent of his accumulated sick leave.

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. During 2012, the City contracted with Jones-Stephenson for property and general liability, automobile liability, boiler and machinery liability, law enforcement liability, and public officials’ liability.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 - RISK MANAGEMENT - (Continued)

Under the Jones-Stephenson program for general liability, law enforcement liability, and public officials' liability, the City has \$1,000,000 of total liability coverage for each occurrence, and a \$1,000,000 aggregate limit. The City carries a \$20,000 deductible for law enforcement and \$15,000 for public officials' liability insurance. Property insurance is covered to a limit of \$46,903,223 with a \$5,000 deductible. Under automobile liability the City has \$1,000,000 of total liability coverage for each occurrence. Automobile insurance carries a \$500 per vehicle deductible for comprehensive coverage and a \$1,000 per vehicle collision coverage. Boiler and machinery insurance is covered to a limit of \$7,000,000 with various sublimits. The City carries a \$10,000 deductible for boiler and machinery liability. Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

The City is a member in good standing of the Ohio Rural Water Association (ORWA) group rating plan. The intent of the City's membership in the ORWA is to achieve the benefit of reduced workers' compensation premiums, foster safer working conditions, and promote cost effective claims management by virtue of its grouping and representation with other members of the ORWA. The City pays a workers' compensation premium based on its individual workers' compensation claim experience; then the workers' compensation claim experience of the ORWA members is calculated as one experience. A comparison is calculated and each member's individual workers' compensation claim experience is compared to the workers' compensation claim experience of the ORWA members. A member may then receive a refund for a favorable comparison to the group or contribute to an equity pooling fund for an unfavorable comparison. The equity pooling arrangement ensures that each member shares equally in the overall experience of the ORWA members. CompManagement, Inc. is the third party administrator that provides case management, consulting and administrative services to participating members of the ORWA.

Beginning in 2004, the City manages the deductible portion of employee health benefits on a self-insured basis. The employee health benefit plan provides this coverage through Patrick and Associates, the third party administrator of the program, which reviews and pays the claims. Patrick and Associates charges the City an annual fee of \$513, with a monthly administration fee of \$6.75 per employee. The claims liability of \$32,776 reported in the self-insurance fund at December 31, 2012, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the internal services fund's claims liability amounts in the past two years follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2012	\$19,776	\$253,605	\$240,605	\$32,776
2011	23,910	274,375	278,509	19,776

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS

The beginning balance of the long-term obligations was restated to remove unamortized deferred charges for the implementation of GASB Statement No. 65. Changes in the City's long-term obligations during 2012 consist of the following:

	(Restated) Outstanding 12/31/2011	Additions	Reductions	Outstanding 12/31/2012	Amounts Due Within One Year
<u>Governmental Activities:</u>					
<u>Notes</u>					
Building Acquisition Note 4.0%	\$ 95,812	\$ -	\$ (5,346)	\$ 90,466	\$ 5,574
Building Improvement Note 4.0%	76,475	-	(4,528)	71,947	4,459
Fire Truck Note 3.7%	216,150	-	(216,150)	-	-
Total Notes	<u>388,437</u>	<u>-</u>	<u>(226,024)</u>	<u>162,413</u>	<u>10,033</u>
Police and Fire Pension Liability	33,856	-	(865)	32,991	902
Compensated Absences	568,357	141,755	(132,425)	577,687	148,441
Total Governmental Activities	<u>\$ 990,650</u>	<u>\$ 141,755</u>	<u>\$ (359,314)</u>	<u>\$ 773,091</u>	<u>\$ 159,376</u>
<u>Business-Type Activities:</u>					
<u>Bonds</u>					
2007 Water System General Obligation Bonds 4%	\$ 1,780,000	\$ -	\$ (175,000)	\$ 1,605,000	\$ 175,000
Unamortized Bond Premium	17,869	-	(1,198)	16,671	-
2006 Electric System Revenue Bonds 4.2-6.4%	3,985,000	-	(320,417)	3,664,583	325,000
Unamortized Bond Discount	(57,000)	-	3,000	(54,000)	-
Total Bonds Payable	<u>5,725,869</u>	<u>-</u>	<u>(493,615)</u>	<u>5,232,254</u>	<u>500,000</u>
<u>Notes Payable</u>					
2001 Holzer Hospital Water Lines 0%	169,012	-	(20,456)	148,556	20,456
2002 Holzer Hospital Lift Station 0%	297,563	-	(34,351)	263,212	34,351
Garbage Truck Note 3.7%	84,150	-	(28,050)	56,100	28,050
Total Notes Payable	<u>550,725</u>	<u>-</u>	<u>(82,857)</u>	<u>467,868</u>	<u>82,857</u>
2007 OWDA Loan 1%	6,755,927	-	(378,564)	6,377,363	382,359
2009 OWDA Loan 0%	1,239,563	66,031	(112,051)	1,193,543	186,753
Total OWDA Loans	<u>7,995,490</u>	<u>66,031</u>	<u>(490,615)</u>	<u>7,570,906</u>	<u>569,112</u>
<u>Other Long-Term Obligations</u>					
AMP-Ohio Stranded Costs Payable	3,009,416	135,199	(732,873)	2,411,742	482,348
Compensated Absences Payable	599,104	209,710	(166,930)	641,884	168,361
Total Business-Type Activities	<u>\$ 17,880,604</u>	<u>\$ 410,940</u>	<u>\$ (1,966,890)</u>	<u>\$ 16,324,654</u>	<u>\$ 1,802,678</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Governmental Activities:

Notes Payable

The City will pay the Building Acquisition and Improvement Notes from the Community Improvement Nonmajor Special Revenue Fund. Principal and interest requirements to retire these outstanding notes at December 31, 2012, are:

Year	Principal	Interest	Total
2013	\$ 10,033	\$ 6,412	\$ 16,445
2014	10,447	5,997	16,444
2015	141,933	3,754	145,687
Total	\$ 162,413	\$ 16,163	\$ 178,576

Police and Fire Pension Liability

The City will pay the Police and Fire Pension Liability from the General Fund. Principal and interest requirements to retire the City's police and fire pension liability outstanding at December 31, 2012, are:

Year	Principal	Interest	Total
2013	\$ 902	\$ 1,393	\$ 2,295
2014	940	1,355	2,295
2015	981	1,314	2,295
2016	1,023	1,272	2,295
2017	1,067	1,228	2,295
2018 - 2022	6,064	5,411	11,475
2023 - 2027	7,483	3,992	11,475
2028 - 2032	9,232	2,243	11,475
2033 - 2035	5,299	339	5,638
Total	\$ 32,991	\$ 18,547	\$ 51,538

Compensated Absences Payable

The City will pay compensated absences from the General Fund and the Cemetery and Street Construction, Maintenance and Repair Nonmajor Special Revenue Funds.

As of December 31, 2012, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$11,942,562, with an unvoted debt margin of \$6,370,087.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Business-Type Activities:

Bonds

In 1993, Water System Revenue Bonds were issued in the amount of \$2,910,000 for the purpose of (1) current refunding and permanent financing of \$2,540,000 of the City's bond anticipation notes issued to pay part of the costs of water system improvements, (2) funding a debt service reserve account, and (3) paying certain costs related to the issuance of the Series 1993 Bonds, together with other permissible costs under the Uniform Public Securities Law.

On October 9, 2007, the City issued \$2,375,000 in Water System General Obligation Bonds, with a premium of \$22,761, for the purpose of (1) defeasing the 1993 Water System Revenue Bonds, and (2) paying for additional water system improvements.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$49,314. This difference, reported as a deduction from bonds payable, is being charged to interest through 2026.

The refunding bonds are serial bonds and are not subject to redemption prior to stated maturity.

Principal and interest requirements for the Water System General Obligation Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 175,000	\$ 64,962	\$ 239,962
2014	200,000	57,962	257,962
2015	200,000	49,962	249,962
2016	200,000	41,962	241,962
2017	215,000	33,962	248,962
2018 - 2022	405,000	80,700	485,700
2023 - 2026	210,000	22,738	232,738
Total	<u>\$ 1,605,000</u>	<u>\$ 352,248</u>	<u>\$ 1,957,248</u>

In 2006, the City issued \$6,495,000 in Electric System Revenue Bonds for the purpose of (1) permanent financing of the City's \$2,765,000 bond anticipation note issued to pay part of the costs of electric system upgrades, and (2) paying for additional electric system improvements, and (3) paying certain costs related to the issuance of Series 1993 Bonds, together with other permissible costs under the Uniform Public Securities Law.

The City has pledged future electric customer revenues, net of specified operating expenses, to repay \$6,495,000 in electric system revenue bonds issued in 2006. Proceeds from these bonds provided financing for various electric utility projects. The bonds are payable solely from electric customer net revenues and are payable through 2030. Annual principal and interest payments on the bonds are expected to require 29.93 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,045,458. Principal and interest paid for the current year and total customer net revenues were \$482,707 and \$1,612,680, respectively.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements for revenue bonds are as follows:

Year	Principal	Interest	Total
2013	\$ 325,000	\$ 150,556	\$ 475,556
2014	340,000	137,556	477,556
2015	355,000	123,956	478,956
2016	130,000	109,756	239,756
2017	145,000	104,556	249,556
2018 - 2022	760,000	433,012	1,193,012
2023 - 2027	945,000	264,320	1,209,320
2028 - 2030	664,583	57,163	721,746
Total	<u>\$ 3,664,583</u>	<u>\$ 1,380,875</u>	<u>\$ 5,045,458</u>

Notes Payable

The Holzer Hospital loans were for improvements to water and sewer lines to and from the hospital facility. Payment for this debt will come in the form of reduced user fees paid by the hospital until the debt is paid.

The City issued a Garbage Truck Note on January 16, 2009, for \$140,000 at 3.7% for the purchase of a garbage truck. Payment for this debt will come from the Garbage Enterprise Fund.

Principal and interest requirements for the Garbage Truck Note are as follows:

Year	Principal	Interest	Total
2013	\$ 28,050	\$ 2,110	\$ 30,160
2014	28,050	1,052	29,102
Total	<u>\$ 56,100</u>	<u>\$ 3,162</u>	<u>\$ 59,262</u>

OWDA Loans

The City received an \$8,051,554 loan from the Ohio Water Development Authority for a sewer project. The loan has a 1.00 percent interest rate and matures July 1, 2028.

The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable solely from sewer and water revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2012, the City has outstanding borrowings of \$7,570,906. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

The City has pledged future sewer revenues to repay the 2007 OWDA loan. This loan is payable solely from sewer fund revenues and are payable through 2028. The 2009 OWDA loan has been excluded from the following calculations. Annual principal and interest payments on the loan exceed net revenues and are 17.91 percent of total revenues. The total principal and interest remaining to be paid on the loan is \$6,900,269. Principal and interest paid for the current year were \$445,179, total net revenues were \$233,082 and total revenues were \$2,485,660.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements are as follows:

Year	Principal	Interest	Total
2013	\$ 382,359	\$ 62,820	\$ 445,179
2014	386,191	58,987	445,178
2015	390,063	55,115	445,178
2016	393,974	51,205	445,179
2017	397,923	47,256	445,179
2018 - 2022	2,050,259	175,633	2,225,892
2023 - 2027	2,155,112	70,783	2,225,895
2028	221,482	1,107	222,589
Total	<u>\$ 6,377,363</u>	<u>\$ 522,906</u>	<u>\$ 6,900,269</u>

During 2009, the City was approved for a \$1,494,023 zero percent loan for a water project. Based on the current status of the OWDA loan, there is a tentative repayment schedule in place, but the final loan repayment schedule has not yet been provided.

AMP-Ohio Stranded Cost Payable

The City is required to pay a portion of stranded costs incurred by AMP-Ohio in relation to the termination of the American Municipal Power Generating Station (AMPGS) project from which the City was supposed to receive electrical distribution benefits. The City’s portion of the overall liability including accrued interest totals \$3,144,615 and is currently scheduled to be repaid over a five year period, with the City beginning payments in 2013. The City’s liability is reduced by the AMP Frequency Energy Center “AFEC” Development fee of \$732,873. The City retains the option to repay the balance of the liability at any point over the next fifteen years. A specific payment schedule has not been established by the City as of December 31, 2012. Principal and interest payments will be made from the electric fund.

Compensated Absences Payable

The City will pay compensated absences from the Water, Sewer, Garbage, and Electric Enterprise Funds.

NOTE 13 - INTERFUND ACTIVITY

A. Transfers

<u>Transfer from</u>	<u>Transfer to Other Governmental Funds</u>	<u>Transfer to Business Type Funds</u>
General	\$ 255,737	\$ 260,596
Other governmental funds	4,546	-
Total	<u>\$ 260,283</u>	<u>\$ 260,596</u>

The transfers from the General Fund were to use unrestricted revenue to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers from other governmental funds represent transfers of interest from permanent funds to operating funds.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 13 - INTERFUND ACTIVITY - (Continued)

- B.** Interfund balances at December 31, 2012, arise from short term loans from the General Fund to the Enterprise Funds. These advances will be repaid in 2013.

	Interfund Receivables	Interfund Payables
General Fund	\$ 155,000	\$ -
Railroad Fund	-	155,000
Total All Funds	\$ 155,000	\$ 155,000

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (371,658)
Net adjustment for revenue accruals	(5,337)
Net adjustment for expenditure accruals	(5,504)
Net adjustment for other sources/uses	14,146
Funds budgeted elsewhere	(13,838)
Adjustment for encumbrances	<u>9,443</u>
GAAP basis	<u>\$ (372,748)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis.

NOTE 15 - JOINT VENTURE

The City of Jackson is a Financing Participant with an ownership percentage of 7.14%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by American Municipal Power (AMP).

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net position will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012, the City has met their debt coverage obligation.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 - JOINT VENTURE - (Continued)

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$697,718 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

NOTE 16 - CONTINGENT LIABILITIES

A. Litigation

The City is currently party to legal proceedings. The City's management is unable to determine what, if any, impact the ultimate disposition of claims will have on the financial condition of the City.

B. Federal and State Grants

For the period January 1, 2012 to December 31, 2012, the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 17 - CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued industrial revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2010 (the latest information available), there was one series of industrial revenue bonds outstanding with an aggregate principal amount payable of \$670,319 and one series of hospital facilities revenue bonds outstanding with an aggregate principal amount payable of \$25 million.

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 18 - FUND BALANCE

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 resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund balance</u>	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Materials and supplies inventory	\$ 2,123	\$ 66,039	\$ 68,162
Perpetual care	-	100,000	100,000
Unclaimed monies	<u>34,774</u>	<u>-</u>	<u>34,774</u>
Total nonspendable	<u>36,897</u>	<u>166,039</u>	<u>202,936</u>
Restricted:			
Community development	-	431,031	431,031
Cemetery	-	504,290	504,290
Transportation	-	348,465	348,465
Public safety	-	228,477	228,477
Lillian Jones museum	-	320,929	320,929
Yout art program	-	500,365	500,365
Other purposes	<u>-</u>	<u>331,244</u>	<u>331,244</u>
Total restricted	<u>-</u>	<u>2,664,801</u>	<u>2,664,801</u>
Committed:			
Capital projects	-	11,081	11,081
Recreation	-	682,353	682,353
Other purposes	<u>-</u>	<u>123,548</u>	<u>123,548</u>
Total committed	<u>-</u>	<u>816,982</u>	<u>816,982</u>
Assigned:			
Recreation	5,797	-	5,797
Community development	85,242	-	85,242
Other purposes	2,137	-	2,137
General government	9,443	-	-
Subsequent year appropriations	<u>1,066,789</u>	<u>-</u>	<u>1,066,789</u>
Total assigned	<u>1,169,408</u>	<u>-</u>	<u>1,169,408</u>
Unassigned	<u>896,590</u>	<u>-</u>	<u>896,590</u>
Total fund balances	<u>\$ 2,102,895</u>	<u>\$ 3,647,822</u>	<u>\$ 5,750,717</u>

CITY OF JACKSON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 19 - COMMITMENTS

A. Contractual Commitments

At December 31, 2012, the City had the following contractual commitments:

Project	Fund	Purchase Commitments	Amount Paid as of 12/31/2012	Amount Remaining on Contracts
Water Plant Transformer Facility	Electric	\$ 25,595	\$ -	\$ 25,595
Water Plant Line Extension	Electric	447,871	(38,049)	409,822
13.2 KV Circuit #1 Conversion	Electric	1,752,403	(36,925)	1,715,478
Total		<u>\$ 2,225,869</u>	<u>\$ (74,974)</u>	<u>\$ 2,150,895</u>

B. Other Commitments

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	Year-End <u>Encumbrances</u>
General fund	<u>\$ 9,443</u>



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

City of Jackson
145 Broadway Street
Jackson, Ohio 45640

To the Members of Council and Mayor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Jackson, Jackson County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Jackson's basic financial statements and have issued our report thereon dated June 14, 2013, wherein we noted as discussed in Note 3, the City of Jackson adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of Jackson'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 of Jackson'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 correct misstatements. A *material weakness* is a deficiency, or 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 of Jackson'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.

Members of Council and Mayor
City of Jackson

Compliance and Other Matters

As part of reasonably assuring whether the City of Jackson'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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City of Jackson's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
June 14, 2013



Dave Yost • Auditor of State

CITY OF JACKSON

JACKSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 6, 2013**