

City of Zanesville

Muskingum County, Ohio

Single Audit

January 1, 2003 through December 31, 2003

Fiscal Year Audited Under GAGAS: 2003



**BALESTRA, HARR & SCHERER**

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**Auditor of State  
Betty Montgomery**

City Council  
City of Zanesville  
401 Market Street  
Zanesville, Ohio 43701

We have reviewed the Independent Auditor's Report of the City of Zanesville, Muskingum County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

December 13, 2004

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City of Zanesville, Ohio  
For the Fiscal Year Ended December 31, 2003  
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For the Fiscal Year Ended December 31, 2003  
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**Independent Auditors' Report**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Zanesville, Muskingum County, Ohio, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southeast Area Transit Authority, which is included as a discrete presentation in the City's basic financial statements. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Southeast Area Transit Authority is based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund, Police fund, and Community Development fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Balestra, Harr & Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

November 24, 2004



**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

The discussion and analysis of the City of Zanesville's financial performance provides an overview of the City's financial performance as a whole for the year ended December 31, 2003.

**Financial Highlights**

Key financial highlights for 2003 follow:

- Unrestricted net assets of governmental activities decreased \$639,868, which represents an approximate 13 percent decrease from 2002.
- A \$5,490,000 refinancing of existing debt at substantially lower interest rates.

**Using this Annual Financial Report**

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

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

***Reporting the City as a Whole***

*Statement of Net Assets and the Statement of Activities*

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and ask the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

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

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

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

**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

***Reporting the City's Most Significant Funds***

*Fund Financial Statements*

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

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

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

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

**Using This Annual Report**

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

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

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

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

**Government-Wide Financial Analysis**

Table 1 provides a summary of the City's net assets for 2003 compared to 2002. Table 2 reflects the changes in net assets for the year ended December 31, 2003. This is the first year for GASB 34 reporting for the City of Zanesville. Therefore, comparisons to 2002 are not shown for some tables.

**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

**Table 1**  
**Net Assets**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
<b>Assets</b>						
Current and Other Assets	\$17,695,335	\$15,633,924	\$9,413,503	\$7,130,327	\$27,108,838	\$22,764,251
Capital Assets	22,555,716	20,613,437	29,724,773	30,040,199	52,280,489	50,653,636
<b>Total Assets</b>	<u>\$40,251,051</u>	<u>\$36,247,361</u>	<u>\$39,138,276</u>	<u>\$37,170,526</u>	<u>\$79,389,327</u>	<u>\$73,417,887</u>
<b>Liabilities</b>						
Long-Term Liabilities	\$8,285,424	\$4,968,457	\$11,570,660	\$8,484,125	\$19,856,084	\$13,452,582
Other Liabilities	3,304,475	3,486,019	861,788	816,928	4,166,263	4,302,947
<b>Total Liabilities</b>	<u>\$11,589,899</u>	<u>\$8,454,476</u>	<u>\$12,432,448</u>	<u>\$9,301,053</u>	<u>\$24,022,347</u>	<u>\$17,755,529</u>
<b>Net Assets</b>						
Invested in Capital Assets						
Net of Debt	\$19,202,535	\$17,045,568	\$20,888,457	\$21,833,337	\$40,090,992	\$38,878,905
Restricted	5,210,369	5,859,201	139,266	41,401	5,349,635	5,900,602
Unrestricted (Deficit)	4,248,248	4,888,116	5,678,105	5,994,735	9,926,353	10,882,851
<b>Total Net Assets</b>	<u>\$28,661,152</u>	<u>\$27,792,885</u>	<u>\$26,705,828</u>	<u>\$27,869,473</u>	<u>\$55,366,980</u>	<u>\$55,662,358</u>

While total assets increased by \$5,971,440, total liabilities increased by an even greater amount \$6,266,818, resulting in a slight decrease in net assets of \$295,378 from 2002 to 2003.

**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

**Table 2**  
**Changes in Net Assets**

	<b>Governmental Activities 2003</b>	<b>Business Type Activities 2003</b>	<b>Total 2003</b>
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$2,426,189	\$8,149,922	\$10,576,111
Operating Grants	1,187,658	0	1,187,658
Capital Grants	1,387,393	14,890	1,402,283
General Revenues:			
Property Taxes	1,029,353	0	1,029,353
Municipal Income Tax	11,735,887	0	11,735,887
Grants and Entitlements	2,587,130	0	2,587,130
Others	475,894	18,757	494,651
<b>Total Revenues</b>	<b>\$20,829,504</b>	<b>\$8,183,569</b>	<b>\$29,013,073</b>
<b>Program Expenses:</b>			
General Government	\$3,646,830	\$0	\$3,646,830
Security of Persons and Property	11,393,480	0	11,393,480
Public Health Services	1,525,595	0	1,525,595
Leisure Time Activities	1,045,622	0	1,045,622
Community Environment	1,274,000	0	1,274,000
Transportation	407,018	0	407,018
Intergovernmental	457,353	0	457,353
Interest and Fiscal Charges	233,913	0	233,913
Sewer	0	5,412,287	5,412,287
Water	0	3,912,353	3,912,353
<b>Total Expenses</b>	<b>\$19,983,811</b>	<b>\$9,324,640</b>	<b>\$29,308,451</b>
<b>Excess (Loss) before Transfers</b>	<b>\$845,693</b>	<b>(\$1,141,071)</b>	<b>(\$295,378)</b>
<b>Transfers</b>	<b>\$22,574</b>	<b>(\$22,574)</b>	<b>\$0</b>
<b>Change in Net Assets</b>	<b>\$868,267</b>	<b>(\$1,163,645)</b>	<b>(\$295,378)</b>

**Governmental Activities**

Total revenues of governmental activities in 2003 were \$20,829,504.

The largest single source of revenue to fund the City's governmental activities is the 1.7% income tax collected within the City. The general 1% portion of the tax was established in 1959 by Ordinance No. 59-86; \$6,950,600 was collected in 2003. In 1980, City Council passed Ordinance No. 80-62 (subsequently approved by voters) establishing a .5% tax devoted to the operation of the Police Department; \$3,492,666 was collected in 2003. In 1991, Ordinance No. 91-14 was passed by City Council (and approved by voters), establishing a .2% tax earmarked for the construction and operation of the city jail; \$1,292,621 was collected in 2003. Total income tax collections in 2003 were \$11,735,887, down 7.2% from the previous year.

Comparisons to 2002 for Table 2 have not been made since they are not available.

**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

**Governmental Activities (continued)**

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

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

Table 3 shows the total cost of services for governmental activities and the net cost of services. The net cost of services represents the cost of services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2002 have not been made since they are not available.

**Table 3**  
**Governmental Activities**

	<b>Total Cost of Services 2003</b>	<b>Net Cost of Services 2003</b>
General Government	\$3,646,830	\$2,775,803
Security of Persons and Property	11,393,480	11,094,129
Public Health Services	1,525,595	(79,331)
Leisure Time Activities	1,045,622	713,766
Community Environment	1,274,000	1,009,934
Transportation	407,018	(1,222,996)
Intergovernmental	457,353	457,353
Interest and Fiscal Charges	233,913	233,913
<b>Total Expenses</b>	<b>\$19,983,811</b>	<b>\$14,982,571</b>

Total expenses of governmental activities in 2003 were \$19,983,811.

At \$11,393,480, or 57% of the total, expenses related to Security of Persons and Property, primarily police and fire operations, accounted for the largest single share of total governmental activities. This was followed by General Government activities at \$3,646,830, or 18.25% of the total.

**Business-Type Activities**

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

The decrease in net assets for these funds is primarily a reflection of two large projects underway in 2003 using water and sewer funds: the Rt. 719 water loop and the installation of new digester covers at the sewer plant. These projects are being funded through OWDA Loans.

**The City's Funds**

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$19,875,920 and expenditures of \$21,593,223.

During 2003, the Water Fund had operating revenues of \$3,271,615 and operating expenses of \$3,663,700. The Sewer Fund had operating revenues of \$4,881,795 and operating expenses of \$5,037,060.

**City of Zanesville, Ohio**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2003

**Budgetary Highlights**

The City prepares an annual budget of revenues and appropriations for all funds effective the first day of its fiscal year on January 1. This version of the budget contains estimates of the amounts carried over in each fund from the previous year. Prior to April 1, the budget is revised to reflect the actual amounts carried over. Periodically through the year the budget is revised to reflect actual activity or changes in priority. Though some minor budgetary changes can be made administratively, the initial budget and most amendments must be passed by City Council. Eight such amendments were made during 2003.

The most significant budgeted fund is the General Fund. This fund supports many major activities such as the Fire Division, Building Code Enforcement, Parks and Recreation, and the Municipal Court. Additionally, large transfers are made from the General Fund to support other activities such as the Police, Community Development, Cemetery, Sanitation and Vehicle Maintenance Divisions. On a cash basis, in 2003 the General Fund had a beginning balance of \$3,184,779, received \$10,642,359 in revenue and expended \$8,365,779.

**Capital Assets and Debt Administration**

The assets of the City are reported at historical cost, net of depreciation. Total capital assets net of depreciation at December 31, 2003 were \$22,555,716 for governmental activities and \$29,724,733 for business type activities. For additional information on capital assets, see Note 9 to the basic financial statements.

***Debt***

Total debt outstanding at December 31, 2003 for governmental activities was \$8,285,424, and for business type activities was \$11,570,660. For additional information on debt, see note 16 to the basic financial statements.

**Current Issues**

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

There are two upcoming projects of note:

- The Sewer Plant Upgrade—Phase 1 of this project is estimated to be \$11,000,000 and will be funded by targeted sewer rate increases (two 7-percent increases have already been implemented) and by a \$4,000,000 commitment from Muskingum County (which utilizes the plant). This project will begin in 2004.
- The SR146/SR60 Connector Road—This project, estimated to be \$5 to \$6 million, will connect two state routes while bypassing the infamously congested Maple Ave. within the City. It will be financed by a State Infrastructure Bank loan with Tax Increment Financing of development along the new road pledged to make debt service payments. Engineering is ongoing and construction should begin in 2005.

**Request for Information**

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

City of Zanesville, Ohio  
Statement of Net Assets  
December 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$10,309,193	\$7,019,298	\$17,328,491	\$365,490
Cash and Cash Equivalents in Segregated Accounts	85,586	30,634	116,220	0
Accounts Receivable	778,460	1,042,353	1,820,813	85,690
Municipal Income Taxes Receivable	2,276,490	0	2,276,490	0
Accrued Interest Receivable	897	0	897	0
Intergovernmental Receivable	2,335,105	0	2,335,105	172,648
Materials and Supplies Inventory	117,194	670,809	788,003	29,270
Prepaid Items	103,938	25,818	129,756	13,838
Property and Other Local Taxes Receivable	1,147,525	0	1,147,525	0
Special Assessments Receivable	14,607	39,939	54,546	0
Loans Receivable	428,930	0	428,930	0
Internal Balances	(265,569)	265,569	0	0
Deferred Charges	60,883	48,975	109,858	0
<b>Restricted Assets:</b>				
Cash and Cash Equivalents - Customer Deposits	0	270,108	270,108	0
Investments	302,096	0	302,096	0
Non-Depreciable Capital Assets	4,785,180	1,806,729	6,591,909	334,255
Depreciable Capital Assets, Net	17,770,536	27,918,044	45,688,580	2,002,530
<b>Total Assets</b>	<b>40,251,051</b>	<b>39,138,276</b>	<b>79,389,327</b>	<b>3,003,721</b>
<b>Liabilities</b>				
Accounts Payable	45,170	22,432	67,602	111,801
Accrued Wages and Benefits Payable	512,625	115,469	628,094	51,599
Intergovernmental Payable	855,939	151,751	1,007,690	0
Matured Severances Payable	1,261	0	1,261	0
Accrued Interest Payable	26,487	19,218	45,705	0
Contracts Payable	462,871	252,176	715,047	0
Retainage Payable	41,327	30,634	71,961	0
Claims Payable	346,500	0	346,500	0
Customer Deposits Payable	0	270,108	270,108	0
Deferred Revenue	1,012,295	0	1,012,295	0
<b>Long-Term Liabilities:</b>				
Due Within One Year	4,346,626	3,500,743	7,847,369	0
Due In More Than One Year	3,938,798	8,069,917	12,008,715	0
<b>Total Liabilities</b>	<b>11,589,899</b>	<b>12,432,448</b>	<b>24,022,347</b>	<b>163,400</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	19,202,535	20,888,457	40,090,992	2,336,785
<b>Restricted for:</b>				
Capital Projects	249,088	39,939	289,027	0
Debt Service	465,815	99,327	565,142	0
Other Purposes	4,495,466	0	4,495,466	0
Unrestricted	4,248,248	5,678,105	9,926,353	503,536
<b>Total Net Assets</b>	<b>\$28,661,152</b>	<b>\$26,705,828</b>	<b>\$55,366,980</b>	<b>\$2,840,321</b>

See accompanying notes to the basic financial statements

**City of Zanesville, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<b>Governmental Activities</b>				
General Government	\$3,646,830	\$813,038	\$57,989	\$0
Security of Persons and Property	11,393,480	126,872	172,479	0
Public Health Services	1,525,595	752,489	40,895	811,542
Leisure Time Activities	1,045,622	303,816	28,040	0
Community Environment	1,274,000	55,430	208,636	0
Transportation	407,018	374,544	679,619	575,851
Intergovernmental	457,353	0	0	0
Interest and Fiscal Charges	233,913	0	0	0
<i>Total Governmental Activities</i>	19,983,811	2,426,189	1,187,658	1,387,393
<b>Business-Type Activities</b>				
Sewer	5,412,287	4,881,795	0	2,000
Water	3,912,353	3,268,127	0	12,890
<i>Total Business-Type Activities</i>	9,324,640	8,149,922	0	14,890
<i>Total Primary Government</i>	\$29,308,451	\$10,576,111	\$1,187,658	\$1,402,283
<b>Component Unit:</b>				
Southeast Area Transit Authority	\$2,520,533	\$842,174	\$0	\$169,131

**General Revenues**

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

*Total General Revenues*

Transfers

Change in Net Assets

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

*Net Assets End of Year*

See accompanying notes to the basic financial statements



Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total	Component Unit
(\$2,775,803)	\$0	(\$2,775,803)	\$0
(11,094,129)	0	(11,094,129)	0
79,331	0	79,331	0
(713,766)	0	(713,766)	0
(1,009,934)	0	(1,009,934)	0
1,222,996	0	1,222,996	0
(457,353)	0	(457,353)	0
(233,913)	0	(233,913)	0
(14,982,571)	0	(14,982,571)	0
0	(528,492)	(528,492)	0
0	(631,336)	(631,336)	0
0	(1,159,828)	(1,159,828)	0
(14,982,571)	(1,159,828)	(16,142,399)	0
0	0	0	(1,509,228)
496,778	0	496,778	0
190,168	0	190,168	0
342,407	0	342,407	0
6,950,600	0	6,950,600	0
3,492,666	0	3,492,666	0
1,292,621	0	1,292,621	0
2,587,130	0	2,587,130	1,378,224
106,806	0	106,806	0
114,220	5,525	119,745	2,042
254,868	13,232	268,100	93,944
15,828,264	18,757	15,847,021	1,474,210
22,574	(22,574)	0	0
868,267	(1,163,645)	(295,378)	(35,018)
27,792,885	27,869,473	55,662,358	2,875,339
\$28,661,152	\$26,705,828	\$55,366,980	\$2,840,321

**City of Zanesville, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2003*

	General	Police	Community Development	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$2,671,630	\$164,360	\$384,427	\$3,413,383	\$3,018,439	\$9,652,239
Cash and Cash Equivalents						
In Segregated Accounts	0	0	6,757	0	78,829	85,586
Receivables:						
Property and Other Local Taxes	542,544	0	0	397,561	207,420	1,147,525
Municipal Income Tax	1,343,129	660,182	0	0	273,179	2,276,490
Accounts	637,349	0	0	0	132,658	770,007
Special Assessments	3,944	0	0	10,663	0	14,607
Loans	0	0	428,930	0	0	428,930
Interfund	93,576	0	0	0	0	93,576
Intergovernmental	996,892	2,818	465,362	0	870,033	2,335,105
Accrued Interest	0	0	0	0	897	897
Materials and Supplies Inventory	0	9,535	0	0	25,197	34,732
Prepaid Items	39,643	23,778	719	0	37,164	101,304
Restricted Assets:						
Investments	0	0	0	0	302,096	302,096
<i>Total Assets</i>	<u>\$6,328,707</u>	<u>\$860,673</u>	<u>\$1,286,195</u>	<u>\$3,821,607</u>	<u>\$4,945,912</u>	<u>\$17,243,094</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$25,840	\$4,104	\$4,375	\$0	\$9,776	\$44,095
Contracts Payable	36,039	0	21,731	0	337,875	395,645
Retainage Payable	0	0	6,757	0	34,570	41,327
Accrued Wages and Benefits Payable	210,665	166,912	8,193	0	111,687	497,457
Matured Severance Payable	0	0	0	0	1,261	1,261
Intergovernmental Payable	353,397	250,562	10,200	0	132,255	746,414
Interfund Payable	17,130	15,778	0	0	113,387	146,295
Deferred Revenue	2,191,436	200,259	441,332	394,990	791,743	4,019,760
<i>Total Liabilities</i>	<u>2,834,507</u>	<u>637,615</u>	<u>492,588</u>	<u>394,990</u>	<u>1,532,554</u>	<u>5,892,254</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	304,168	25,759	12,415	0	633,124	975,466
Reserved for Unclaimed Monies	6,678	0	0	0	0	6,678
Reserved for Loans	0	0	428,930	0	0	428,930
Unreserved, Undesignated, Reported in:						
General Fund	3,183,354	0	0	0	0	3,183,354
Special Revenue Funds	0	197,299	352,262	0	2,597,150	3,146,711
Debt Service Funds	0	0	0	3,426,617	0	3,426,617
Capital Projects Funds	0	0	0	0	183,084	183,084
<i>Total Fund Balances</i>	<u>3,494,200</u>	<u>223,058</u>	<u>793,607</u>	<u>3,426,617</u>	<u>3,413,358</u>	<u>11,350,840</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$6,328,707</u>	<u>\$860,673</u>	<u>\$1,286,195</u>	<u>\$3,821,607</u>	<u>\$4,945,912</u>	<u>\$17,243,094</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2003*

Total Governmental Fund Balances		\$11,350,840
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (governmental internal service fund capital assets included)		22,555,716
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:		
Property and Other Taxes	199,223	
Municipal Income Tax	680,831	
Special Assessments	10,382	
Charges for Services	677,908	
Intergovernmental	1,438,224	
Interest	897	
Total		3,007,465
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		60,883
Internal service funds are used by management to charge the cost of insurance and vehicle maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (excluding capital assets reported above)		407,975
An interfund payable is recorded in governmental activities to reflect overpayments to the internal service funds by the business-type activities		(283,556)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds Payable	6,651,897	
Intergovernmental Payable	90,282	
Accrued Interest Payable	26,487	
Contracts Payable	67,226	
Capital Leases Payable	11,564	
Compensated Absences Payable	1,590,715	
Total		(8,438,171)
<i>Net Assets of Governmental Activities</i>		<u>\$28,661,152</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2003

	General	Police	Community Development	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
Property and Other Taxes	\$496,778	\$0	\$0	\$362,401	\$190,168	\$1,049,347
Municipal Income Tax	6,591,701	3,331,952	0	0	1,226,119	11,149,772
Charges for Services	451,855	69,961	147	0	914,487	1,436,450
Fines, Licenses and Permits	540,488	140	0	0	478,780	1,019,408
Intergovernmental	1,920,192	42,527	444,360	42,077	2,310,741	4,759,897
Interest	114,220	0	14,584	0	43,717	172,521
Special Assessments	0	0	0	16,747	0	16,747
Rent	6,600	0	9,373	0	937	16,910
Other	16,217	2,649	2,254	0	233,748	254,868
<i>Total Revenues</i>	<u>10,138,051</u>	<u>3,447,229</u>	<u>470,718</u>	<u>421,225</u>	<u>5,398,697</u>	<u>19,875,920</u>
Expenditures						
Current:						
General Government	3,509,491	0	0	175	102,004	3,611,670
Security of Persons and Property	3,436,414	4,968,199	0	0	2,056,755	10,461,368
Public Health Services	56,330	0	0	0	1,488,384	1,544,714
Leisure Time Activities	604,722	0	0	0	462,016	1,066,738
Community Environment	316,700	0	654,099	0	208,977	1,179,776
Transportation	0	0	0	0	1,838,252	1,838,252
Intergovernmental	457,353	0	0	0	0	457,353
Capital Outlay	0	0	0	0	850,942	850,942
Debt Service:						
Principal Retirement	0	827	0	283,000	5,478	289,305
Interest and Fiscal Charges	0	551	0	230,200	1,471	232,222
Issuance Costs	0	0	0	60,883	0	60,883
<i>Total Expenditures</i>	<u>8,381,010</u>	<u>4,969,577</u>	<u>654,099</u>	<u>574,258</u>	<u>7,014,279</u>	<u>21,593,223</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,757,041</u>	<u>(1,522,348)</u>	<u>(183,381)</u>	<u>(153,033)</u>	<u>(1,615,582)</u>	<u>(1,717,303)</u>
Other Financing Sources (Uses)						
Refunding Bonds Issued	0	0	0	3,042,500	0	3,042,500
Premium on Refunding Bonds	0	0	0	17,397	0	17,397
Accrued Interest on Refunding Bonds	0	0	0	6,849	0	6,849
Sale of Assets	22,485	0	0	0	335	22,820
Transfers In	0	1,214,937	200,008	100,000	1,822,998	3,337,943
Transfers Out	(3,298,994)	(31,573)	0	0	(119,991)	(3,450,558)
<i>Total Other Financing Sources (Uses)</i>	<u>(3,276,509)</u>	<u>1,183,364</u>	<u>200,008</u>	<u>3,166,746</u>	<u>1,703,342</u>	<u>2,976,951</u>
<i>Net Change in Fund Balances</i>	<u>(1,519,468)</u>	<u>(338,984)</u>	<u>16,627</u>	<u>3,013,713</u>	<u>87,760</u>	<u>1,259,648</u>
<i>Fund Balances Beginning of Year (Restated - Note 3)</i>	<u>5,013,668</u>	<u>562,042</u>	<u>776,980</u>	<u>412,904</u>	<u>3,325,598</u>	<u>10,091,192</u>
<i>Fund Balances End of Year</i>	<u>\$3,494,200</u>	<u>\$223,058</u>	<u>\$793,607</u>	<u>\$3,426,617</u>	<u>\$3,413,358</u>	<u>\$11,350,840</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2003*

Net Change in Fund Balance - Total Governmental Funds \$1,259,648

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

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

Capital Asset Additions	3,459,371	
Current Year Depreciation	<u>(1,255,274)</u>	
Total		2,204,097

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the proceeds and the loss on disposal of assets:

Loss on Disposal of Assets	(225,129)	
Proceeds from Sale of Assets	<u>(22,820)</u>	
Total		(247,949)

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

Property and Other Taxes	(19,994)	
Municipal Income Taxes	586,115	
Charges for Services	46,051	
Intergovernmental	343,086	
Special Assessments	(2,571)	
Interest	<u>897</u>	
Total		953,584

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

General Obligation Bonds	220,000	
JEDD Bond	63,000	
Capital Leases	<u>6,305</u>	
Total		289,305

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding obligations on the statement of net assets. (1,691)

Issuance costs are reported as an expenditure when paid in governmental funds, but are accrued on outstanding debt on the statement of activities. 60,883

General obligation refunding bonds issued, bond premiums, and accrued interest payable are other financing sources in governmental funds, but the issuance increases long-term liabilities on the statement of net assets.

General Obligation Refunding Bonds Issued	(3,042,500)	
Premium on Bonds Issued	(17,397)	
Accrued Interest on Bonds Issued	<u>(6,849)</u>	
Total		(3,066,746)

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

Contracts Payable	65,268	
Intergovernmental Payable	(9,683)	
Compensated Absences Payable	<u>(547,086)</u>	
Total		(491,501)

The internal service funds used by management to charge the costs of insurance and vehicle maintenance to individual funds is not reported in the statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net expenses of the internal service funds are allocated among governmental activities (91,363)

Change in Net Assets of Governmental Activities \$868,267

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property and Other Taxes	\$2,397,267	\$479,712	\$496,778	\$17,066
Municipal Income Tax	12,612,000	7,441,757	6,920,478	(521,279)
Charges for Services	409,200	420,503	437,155	16,652
Fines, Licenses and Permits	465,770	520,707	579,320	58,613
Rental Income	500	6,575	6,600	25
Intergovernmental	0	1,866,474	2,060,030	193,556
Interest	185,000	185,000	125,808	(59,192)
Other	50,472	111,688	16,190	(95,498)
<i>Total Revenues</i>	<u>16,120,209</u>	<u>11,032,416</u>	<u>10,642,359</u>	<u>(390,057)</u>
Expenditures				
Current:				
General Government	6,358,976	5,342,879	3,441,580	1,901,299
Security of Persons and Property	3,115,264	3,656,802	3,460,447	196,355
Public Health Services	58,330	58,330	56,330	2,000
Leisure Time Activities	699,374	786,746	634,200	152,546
Community Environment	392,820	417,374	315,869	101,505
Intergovernmental	540,590	500,590	457,353	43,237
<i>Total Expenditures</i>	<u>11,165,354</u>	<u>10,762,721</u>	<u>8,365,779</u>	<u>2,396,942</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,954,855</u>	<u>269,695</u>	<u>2,276,580</u>	<u>2,006,885</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	4,000	22,484	22,485	1
Advances In	78,819	0	0	0
Transfers In	8,023,831	503,033	0	(503,033)
Transfers Out	(16,246,282)	(3,979,986)	(3,298,994)	680,992
<i>Total Other Financing Sources (Uses)</i>	<u>(8,139,632)</u>	<u>(3,454,469)</u>	<u>(3,276,509)</u>	<u>177,960</u>
<i>Net Change in Fund Balance</i>	<u>(3,184,777)</u>	<u>(3,184,774)</u>	<u>(999,929)</u>	<u>2,184,845</u>
<i>Fund Balance Beginning of Year</i>	3,184,779	3,184,779	3,184,779	0
Prior Year Encumbrances Appropriated	<u>115,233</u>	<u>115,233</u>	<u>115,233</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$115,235</u>	<u>\$115,238</u>	<u>\$2,300,083</u>	<u>\$2,184,845</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Police Fund  
For the Year Ended December 31, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal Income Taxes	\$0	\$3,493,389	\$3,493,389	\$0
Charges for Services	21,000	63,164	69,961	6,797
Fines, Licenses and Permits	200	200	140	(60)
Intergovernmental	35,580	35,580	53,107	17,527
Other	42,264	8,100	2,649	(5,451)
<i>Total Revenues</i>	99,044	3,600,433	3,619,246	18,813
Expenditures				
Current:				
Security of Persons and Property	5,089,569	5,143,572	4,922,555	221,017
<i>Excess of Revenues Under Expenditures</i>	(4,990,525)	(1,543,139)	(1,303,309)	239,830
Other Financing Sources (Uses)				
Sale of Fixed Assets	2,500	2,500	0	(2,500)
Transfers In	4,785,057	1,337,670	1,214,937	(122,733)
Transfers Out	(31,573)	(31,573)	(31,573)	0
<i>Total Other Financing Sources (Uses)</i>	4,755,984	1,308,597	1,183,364	(125,233)
<i>Net Change in Fund Balance</i>	(234,541)	(234,542)	(119,945)	114,597
<i>Fund Balance Beginning of Year</i>	234,542	234,542	234,542	0
Prior Year Encumbrances Appropriated	13,608	13,608	13,608	0
<i>Fund Balance End of Year</i>	<u>\$13,609</u>	<u>\$13,608</u>	<u>\$128,205</u>	<u>\$114,597</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Statement of Revenues, Expenditures and Changes  
in Fund Balance - Budget (Non-GAAP Basis) and Actual  
Community Development Fund  
For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$0	\$0	\$147	\$147
Intergovernmental	804,770	722,591	496,751	(225,840)
Rental Income	8,765	8,765	9,373	608
Interest	16,845	16,845	16,568	(277)
Other	0	0	2,254	2,254
<i>Total Revenues</i>	<u>830,380</u>	<u>748,201</u>	<u>525,093</u>	<u>(223,108)</u>
Expenditures				
Current:				
Community Environment	<u>1,319,377</u>	<u>1,233,195</u>	<u>640,440</u>	<u>592,755</u>
<i>Excess of Revenues Under Expenditures</i>	(488,997)	(484,994)	(115,347)	369,647
Other Financing Sources (Uses)				
Transfers In	293,956	273,344	200,008	(73,336)
Transfers Out	<u>(89,948)</u>	<u>(73,335)</u>	<u>0</u>	<u>73,335</u>
<i>Total Other Financing Sources (Uses)</i>	<u>204,008</u>	<u>200,009</u>	<u>200,008</u>	<u>(1)</u>
<i>Net Change in Fund Balance</i>	(284,989)	(284,985)	84,661	369,646
<i>Fund Balance Beginning of Year</i>	284,988	284,988	284,988	0
Prior Year Encumbrances Appropriated	<u>2,363</u>	<u>2,363</u>	<u>2,363</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$2,362</u></u>	<u><u>\$2,366</u></u>	<u><u>\$372,012</u></u>	<u><u>\$369,646</u></u>

See accompanying notes to the basic financial statements



City of Zanesville, Ohio  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2003

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
<b>Assets</b>				
<b>Current:</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,027,487	\$2,991,811	\$7,019,298	\$656,954
Receivables:				
Accounts	620,058	422,295	1,042,353	8,453
Special Assessments	39,939	0	39,939	0
Interfund	0	0	0	72,077
Materials and Supplies Inventory	329,355	341,454	670,809	82,462
Prepaid Items	25,818	0	25,818	2,634
Restricted Assets:				
Cash and Cash Equivalents - Customer Deposits	0	270,108	270,108	0
Cash and Cash Equivalents in Segregated Accounts	1,727	28,907	30,634	0
<b>Total Current Assets</b>	<b>5,044,384</b>	<b>4,054,575</b>	<b>9,098,959</b>	<b>822,580</b>
<b>Noncurrent:</b>				
Defered Charges	21,543	27,432	48,975	0
Non-Depreciable Capital Assets	1,558,051	248,678	1,806,729	0
Depreciable Capital Assets, Net	19,506,672	8,411,372	27,918,044	542,912
<b>Total Noncurrent Assets</b>	<b>21,086,266</b>	<b>8,687,482</b>	<b>29,773,748</b>	<b>542,912</b>
<b>Total Assets</b>	<b>26,130,650</b>	<b>12,742,057</b>	<b>38,872,707</b>	<b>1,365,492</b>
<b>Liabilities</b>				
<b>Current:</b>				
Accounts Payable	15,147	7,285	22,432	1,075
Contracts Payable	57,058	38,257	95,315	0
Accrued Wages and Benefits Payable	56,002	59,467	115,469	15,168
Compensated Absences Payable	108,071	81,481	189,552	13,158
Intergovernmental Payable	75,394	76,357	151,751	19,243
Claims Payable	0	0	0	346,500
Interfund Payable	6,060	11,927	17,987	1,371
Accrued Interest Payable	3,498	15,720	19,218	0
OWDA Loans Payable	459,737	221,454	681,191	0
General Obligation Bonds Payable	1,177,500	1,452,500	2,630,000	0
<b>Total Current Liabilities</b>	<b>1,958,467</b>	<b>1,964,448</b>	<b>3,922,915</b>	<b>396,515</b>
<b>Current Liabilities Payable from Restricted Assets:</b>				
Customer Deposits	0	270,108	270,108	0
Retainage Payable	1,727	28,907	30,634	0
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>1,727</b>	<b>299,015</b>	<b>300,742</b>	<b>0</b>
<b>Long-Term (Net of Current Portion):</b>				
Compensated Absences Payable	52,140	89,684	141,824	18,090
Contracts Payable	156,861	0	156,861	0
OWDA Loans Payable	4,033,075	1,723,525	5,756,600	0
General Obligation Bonds Payable	909,903	1,261,590	2,171,493	0
<b>Total Long-Term Liabilities</b>	<b>5,151,979</b>	<b>3,074,799</b>	<b>8,226,778</b>	<b>18,090</b>
<b>Total Liabilities</b>	<b>7,112,173</b>	<b>5,338,262</b>	<b>12,450,435</b>	<b>414,605</b>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	15,517,204	5,371,253	20,888,457	542,912
Restricted for:				
Capital Projects	39,939	0	39,939	0
Debt Service	66,855	32,472	99,327	0
Unrestricted	3,394,479	2,000,070	5,394,549	407,975
<b>Total Net Assets</b>	<b>\$19,018,477</b>	<b>\$7,403,795</b>	<b>26,422,272</b>	<b>\$950,887</b>

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

283,556

Net Assets of Business Type Activities

\$26,705,828

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2003

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
Operating Revenues				
Charges for Services	\$4,881,795	\$3,268,127	\$8,149,922	\$4,151,653
Other Operating Revenues	0	3,488	3,488	410
<i>Total Operating Revenues</i>	<u>4,881,795</u>	<u>3,271,615</u>	<u>8,153,410</u>	<u>4,152,063</u>
Operating Expenses				
Personal Services	1,541,383	1,687,621	3,229,004	433,808
Contractual Services	1,724,095	1,270,588	2,994,683	241,644
Materials and Supplies	980,395	323,485	1,303,880	470,809
Claims	0	0	0	3,232,410
Depreciation	728,917	382,006	1,110,923	13,869
<i>Total Operating Expenses</i>	<u>4,974,790</u>	<u>3,663,700</u>	<u>8,638,490</u>	<u>4,392,540</u>
<i>Operating Loss</i>	(92,995)	(392,085)	(485,080)	(240,477)
Non-Operating Revenues (Expenses)				
Interest	2,409	3,116	5,525	0
Interest and Fiscal Charges	(365,429)	(240,937)	(606,366)	0
Loss on Disposal of Assets	(62,270)	0	(62,270)	0
Other Non-Operating Revenues	9,744	0	9,744	0
Other Non-Operating Expenses	(3,589)	0	(3,589)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(419,135)</u>	<u>(237,821)</u>	<u>(656,956)</u>	<u>0</u>
<i>Loss Before Transfers</i>	(512,130)	(629,906)	(1,142,036)	(240,477)
Transfers In	0	0	0	135,189
Transfers Out	(11,468)	(11,106)	(22,574)	0
<i>Loss Before Capital Contributions</i>	(523,598)	(641,012)	(1,164,610)	(105,288)
Capital Contributions	2,000	12,890	14,890	0
<i>Change in Net Assets</i>	(521,598)	(628,122)	(1,149,720)	(105,288)
<i>Net Assets Beginning of Year (Restated Note 3)</i>	<u>19,540,075</u>	<u>8,031,917</u>		<u>1,056,175</u>
<i>Net Assets End of Year</i>	<u>\$19,018,477</u>	<u>\$7,403,795</u>		<u>\$950,887</u>

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

(13,925)

*Change in Net Assets of Business Type Activities*

(\$1,163,645)

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2003

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$4,834,991	\$3,246,420	\$8,081,411	\$4,185,242
Cash Payments for Employee Services and Benefits	(1,481,761)	(1,638,338)	(3,120,099)	(429,172)
Cash Payments to Suppliers for Goods and Services	(2,701,128)	(1,558,431)	(4,259,559)	(767,953)
Cash Payments for Claims	0	0	0	(3,144,460)
Other Operating Revenues	0	3,488	3,488	410
Other Non-Operating Revenues	9,744	0	9,744	0
Other Non-Operating Expenses	(3,589)	0	(3,589)	0
Customer Deposits Received	0	68,363	68,363	0
Customer Deposits Returned	0	(39,076)	(39,076)	0
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>658,257</u>	<u>82,426</u>	<u>740,683</u>	<u>(155,933)</u>
Cash Flows from Noncapital Financing Activities:				
Contract with Port Authority	(152,291)	0	(152,291)	0
Transfers In	0	0	0	135,189
Transfers Out	(11,468)	(11,106)	(22,574)	0
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>(163,759)</u>	<u>(11,106)</u>	<u>(174,865)</u>	<u>135,189</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(17,836)	(744,616)	(762,452)	0
OWDA Loans Issued	1,060,916	410,068	1,470,984	0
Refunding Bonds Issued	1,076,250	1,371,250	2,447,500	0
Premium on Refunding Bonds	6,153	7,840	13,993	0
Refunding Bonds Issuance Cost	(21,545)	(27,430)	(48,975)	0
Accrued Interest on Refunding Bonds	2,422	3,086	5,508	0
Principal Paid on Debt	(595,900)	(304,155)	(900,055)	0
Interest Paid on Debt	(370,968)	(233,568)	(604,536)	0
Special Assessments	1,462	0	1,462	0
Capital Contributions	2,000	12,890	14,890	0
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>1,142,954</u>	<u>495,365</u>	<u>1,638,319</u>	<u>0</u>
Cash Flows from Investing Activities:				
Interest on Investments	2,409	3,116	5,525	0
<i>Net Cash Provided by Investing Activities</i>	<u>2,409</u>	<u>3,116</u>	<u>5,525</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	1,639,861	569,801	2,209,662	(20,744)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,389,353</u>	<u>2,721,025</u>	<u>5,110,378</u>	<u>677,698</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$4,029,214</u>	<u>\$3,290,826</u>	<u>\$7,320,040</u>	<u>\$656,954</u>

(Continued)

City of Zanesville, Ohio  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2003  
(Continued)

	Business Type Activities - Enterprise Funds			Governmental Activities- Internal Service Funds
	Sewer	Water	Total	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
<i>Operating Income (Loss)</i>	(\$92,995)	(\$392,085)	(\$485,080)	(\$240,477)
Adjustments:				
Depreciation	728,917	382,006	1,110,923	13,869
Other Non-Operating Revenues	9,744	0	9,744	0
Other Non-Operating Expenses	(3,589)	0	(3,589)	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(46,804)	(21,707)	(68,511)	32,806
Decrease in Interfund Receivable	0	0	0	240
Decrease in Intergovernmental Receivable	0	0	0	761
(Increase) Decrease in Materials and Supplies Inventory	(1,808)	9,163	7,355	(38,426)
(Increase) Decrease in Prepaid Items	(3,600)	21,632	18,032	(719)
Increase (Decrease) in Accounts Payable	9,362	(7,879)	1,483	(16,573)
Increase in Retainage Payable	1,727	12,250	13,977	0
Increase in Accrued Wages and Benefits Payable	1,895	8,194	10,089	1,304
Increase in Intergovernmental Payable	16,166	16,881	33,047	3,341
Increase in Claims Payable	0	0	0	87,950
Increase (Decrease) in Compensated Absences Payable	38,980	21,748	60,728	(711)
Increase (Decrease) in Interfund Payable	262	2,936	3,198	702
Increase in Customer Deposits	0	29,287	29,287	0
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>\$658,257</u>	<u>\$82,426</u>	<u>\$740,683</u>	<u>(\$155,933)</u>

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*December 31, 2003*

	Private Purpose Trust Funds	Agency Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$12,626	\$81,903
Investments	12,017	0
<i>Total Assets</i>	<i>\$24,643</i>	<i>\$81,903</i>
Liabilities		
Undistributed Monies	0	81,903
<i>Total Liabilities</i>	<i>0</i>	<i>\$81,903</i>
Net Assets		
Held in Trust	24,643	
<i>Total Net Assets</i>	<i>\$24,643</i>	

See accompanying notes to the basic financial statements

City of Zanesville, Ohio  
*Statement of Changes in Fiduciary Net Assets*  
*Fiduciary Fund*  
*For the Year Ended December 31, 2003*

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	<u>\$25</u>
<i>Change in Net Assets</i>	25
<i>Net Assets Beginning of Year</i>	<u>24,618</u>
<i>Net Assets End of Year</i>	<u><u>\$24,643</u></u>

See accompanying notes to the basic financial statements

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

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**NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION**

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

A. Reporting Entity

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

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

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

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

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

The following have been excluded from the financial reporting entity:

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

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

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

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

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

The City is involved with the following organizations which are defined as joint ventures. Additional information concerning the joint ventures is presented in Note 20.

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

The City is associated with the Ohio Rural Water Association Workers Compensation Group Rating Program which is defined as an insurance purchasing pool. Information regarding the pool is presented in Note 21.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies Financial and Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989 to its governmental and business type activities and to its proprietary activities provided they do not conflict with Governmental Accounting Standards Board Statements and Interpretations. The City has elected not to follow FASB guidance issue after December 1, 1989. Information in the notes to the Basic Financial Statements relates in general to the primary government. Information related to the operation of the South East Area Transit Authority (component unit) is included in Note 25.

A. **Basis of Presentation**

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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



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

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

**B. Fund Accounting**

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

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

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

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

***Community Development Fund*** To account for revenue from the federal government used for a revolving loan program and improvements to target areas within the City.

***Debt Service Fund*** The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

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

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

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

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

***Internal Service Funds*** Internal Service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. There are four categories of fiduciary funds; pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for grant money passed through for a scenic route project, payroll activity, and mayor's court collections that are distributed to various local governments.

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

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: municipal income taxes, hotel taxes, charges for services, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), interest, loans, grants, fees, and rentals.

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

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

***Deferred Revenue*** Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met also have been recorded as deferred revenue.

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

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

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

E. Budget Process

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

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

The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. The amounts reported on the budgetary statement reflect the amounts on the amended official certificate of estimated resources in effect at the time final appropriations were adopted by council. The amounts reported as the original budgeted amounts in the budgetary statements reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

F. Cash and Cash Equivalents

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

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

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

F. Cash and Cash Equivalents (Continued)

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

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

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

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

The City invested funds in the State Asset Reserve of Ohio (STAROhio), repurchase agreements, money market mutual funds and U.S. Treasury Notes during 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

G. Inventory

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

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

Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

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

I. Restricted Assets

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

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

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

**J. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market value as of the date received. The City maintains a capitalization threshold of five thousand dollars. The City's infrastructure consists of U.S. and State roads, City streets, street signs, and water and sewer systems. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

	Governmental	Business-Type
	Activities	Activities
Description	Estimated Lives	Estimated Lives
Buildings	10 - 100 years	10 - 100 years
Buildings and Improvements	10 - 100 years	10 - 100 years
Machinery, Equipment, Furniture and Fixtures	4 - 20 years	4 - 20 years
Vehicles	3 - 10 years	3 - 10 years
Infrastructure	8 - 10 years	8 - 10 years

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

**K. Compensated Absences**

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Unamortized Issuance Costs/Bond Premiums

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

N. Fund Balance Reserves

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

O. Net Assets

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

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

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

P. Operating Revenues and Expenses

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

Q. Contributions of Capital

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

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

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

R. Interfund Activity

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

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City had no extraordinary items or special items in 2003.

T. Estimates

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

**NOTE 3 - RESTATEMENT OF PRIOR YEAR FUND EQUITY**

**Changes in Accounting Principles** For fiscal year 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

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

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures. At December 31, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 41 allows presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the City not being able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the City for fiscal year 2003.

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

**NOTE 3 - RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)**

*Restatement of Fund Balances* The fund classification was updated during fiscal year 2003 to reclassify the airport, cemetery, auditorium, and sanitation funds, previously reported as enterprise funds, as special revenue funds. There were also restatements of fund equity for corrections of prior year accrual balances and the allocation of agency fund cash associated with City activities. These reclassifications and the implementation of Interpretation No. 6 had the following effect on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented.

	General	Police	Debt Service	Community Development	Nonmajor Funds	Total
Fund Balances						
December 31, 2002	\$4,952,479	\$508,258	\$412,904	\$643,570	\$1,866,443	\$8,383,654
Fund Reclassifications:						
Airport	0	0	0	0	208,894	208,894
Cemetery	0	0	0	0	724,832	724,832
Auditorium	0	0	0	0	47,807	47,807
Sanitation	0	0	0	0	361,366	361,366
Interpretation 6:						
Compensated Absences	53,586	63,532	0	1,066	107,249	225,433
Accrual Restatement	36,773	26,979	0	1,435	15,412	80,599
Municipal Income Tax Restatement	(74,721)	(36,727)	0	0	(15,198)	(126,646)
Deferred Revenue Restatement	0	0	0	130,909	0	130,909
Agency Fund Cash Allocation	45,551	0	0	0	8,793	54,344
Restated Fund Balances						
December 31, 2002	<u>\$5,013,668</u>	<u>\$562,042</u>	<u>\$412,904</u>	<u>\$776,980</u>	<u>\$3,325,598</u>	<u>\$10,091,192</u>
GASB 34 Adjustments:						
Capital Assets						20,056,656
Internal Service Funds						758,694
Compensated Absences						(1,043,629)
Capital Long-Term Liabilities						(3,567,869)
Noncapital Long-Term Liabilities						(325,000)
Contracts Payable						(132,494)
Accrued Interest Payable						(17,947)
Intergovernmental Payable						(80,599)
Deferred Revenue						<u>2,053,881</u>
Governmental Activities Net Assets, December 31, 2002						<u><u>\$27,792,885</u></u>



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

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**NOTE 3 - RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)**

The transition from proprietary fund equity to net assets of the business type activities is as follows:

	Sewer	Water	Nonmajor Funds	Totals
Fund Equity, December 31, 2002	\$19,139,346	\$7,986,607	\$6,520,004	\$33,645,957
Fund Reclassifications including the elimination of capital assets and long term obligations:				
Airport	0	0	(3,229,616)	(3,229,616)
Cemetery	0	0	(824,573)	(824,573)
Auditorium	0	0	(1,981,330)	(1,981,330)
Sanitation	0	0	(484,485)	(484,485)
Accounts Receivable Restatement	(1,780)	0	0	(1,780)
Long-Term Contracts Payable Restatement	(52,822)	0	0	(52,822)
Capital Asset Restatement	413,930	45,310	0	459,240
Deferred Revenue Restatement	41,401	0	0	41,401
Net Assets December 31, 2002	<u>19,540,075</u>	<u>8,031,917</u>	<u>0</u>	<u>27,571,992</u>
Internal Service Funds Assets and Liabilities included in Business Type Activities	<u>215,605</u>	<u>81,876</u>	<u>0</u>	<u>297,481</u>
Business Type Activities Net Assets December 31, 2002	<u>\$ 19,755,680</u>	<u>\$ 8,113,793</u>	<u>\$ -</u>	<u>\$ 27,869,473</u>

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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**NOTE 3 - RESTATEMENT OF PRIOR YEAR FUND EQUITY (Continued)**

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

	Net Change in Fund Balance		
	General	Police	Community Development
GAAP Basis	(\$1,519,468)	(\$338,984)	\$16,627
Revenue Accruals	566,129	181,784	54,375
Unrecorded Cash	(61,821)	(9,767)	0
Expenditure Accruals	324,957	73,410	26,074
Encumbrances	(309,726)	(26,388)	(12,415)
Budget Basis	<u>(\$999,929)</u>	<u>(\$119,945)</u>	<u>\$84,661</u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other 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;

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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.

Cash on Hand At year end, the City had \$84,886 in undeposited cash on hand which is included on the balance sheet of the City as part of Aequity in pooled cash and cash equivalents.@

Deposits At year-end, the carrying amount of the City's deposits was \$7,856,373, and the bank balance was \$9,035,148. Of the bank balance:

1. \$247,213 was covered by federal depository insurance;
2. \$8,787,935 was uninsured and uncollateralized. Although all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments GASB Statement 3 "Deposits with Financial Institutions, Investment and Reverse Repurchase Agreements" requires that investments be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. The City's investments in money market mutual funds and STAROhio are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)**

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
General Obligation Bonds	\$262,000	\$0	\$262,000
U.S. Treasury Notes	50,113	0	50,113
Repurchase Agreements	0	4,831,000	4,831,000
Money Market Mutual Fund	0	0	9,719
STAR Ohio	0	0	5,029,370
Total	<u>\$312,113</u>	<u>\$4,831,000</u>	<u>\$10,182,202</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement 9. Reconciliation between the classification of cash and investments on the basic financial statements and the classification per GASB Statement 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$17,809,348	\$314,113
Undeposited Cash	(84,886)	0
Investments:		
Repurchase Agreements	(4,831,000)	4,831,000
Certificates of Deposit	2,000	(2,000)
STAR Ohio	(5,029,370)	5,029,370
Money Market Mutual Funds	(9,719)	9,719
GASB Statement 3	<u>\$7,856,373</u>	<u>\$10,182,202</u>

**NOTE 6 - PROPERTY TAXES**

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

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

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

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for all property except inventory, which has a rate of 23 percent.

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

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**NOTE 6 - PROPERTY TAXES** (Continued)

The full tax rate for all City operations for the year ended December 31, 2003, was \$3.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$282,919,350
Tangible Personal Property	<u>74,155,290</u>
	<u><u>\$357,074,640</u></u>

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

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

The County Treasurer collects property taxes on behalf of Muskingum County, including the City of Zanesville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, delinquent property taxes have been recorded as revenue, while the remainder of the receivable has been deferred.

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accounts (billings for user charged services including unbilled utility services), special assessments, loans, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are collectible in full. Delinquent accounts receivable are certified and collected as a special assessment, subject to foreclosure for nonpayment.

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

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**NOTE 7 – RECEIVABLES (Continued)**

A summary of intergovernmental receivables follows:

	<u>Amounts</u>
<b>Governmental Activities</b>	
Local Government	\$857,821
Bureau of Workers' Compensation Reimbursement	6,451
USDA December 2003 Rent and Utilities	2,259
Rental of Council Chambers	450
Immobilization Fees	500
Building Code Enforcement Fees	574
Intangible Distribution	9,982
Gasoline Tax	165,282
Excise Tax	145,148
Motor Vehicle License Tax	186,752
Rollback and Homestead	59,966
Estate Tax	77,227
Community Health and Improvement Grants	37,687
Court and Public Safety Grants	16,061
Police Grants	2,818
Community Development Grants	465,362
Airport Grants	74,019
Capital Projects Grants	226,746
	<u>\$2,335,105</u>

**NOTE 8 - INCOME TAX**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are distributed to funds in the following manner: 1% to General Fund, .5% to Police Expenditure Special Revenue Fund, and .2% to Jail Operating Special Revenue Fund. Income tax revenue for 2003 was \$11,735,887.

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

**NOTE 9 – CAPITAL ASSETS**

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

	Restated Balance 12/31/02	Additions	Reductions	Balance 12/31/03
<b>Governmental Activities:</b>				
Non Depreciable Capital Assets:				
Land	\$4,690,889	\$79,291	\$0	\$4,770,180
Construction in Progress	1,972,518	0	(1,957,518)	15,000
Total Non Depreciable Capital Assets	<u>6,663,407</u>	<u>79,291</u>	<u>(1,957,518)</u>	<u>4,785,180</u>
Depreciable Capital Assets:				
Buildings and Improvements	11,375,433	376,552	(76,617)	11,675,368
Machinery and Equipment	2,722,341	429,126	(126,424)	3,025,043
Infrastructure	3,036,791	4,531,920	0	7,568,711
Vehicles	3,146,653	0	(77,807)	3,068,846
Total Depreciable Capital Assets	<u>20,281,218</u>	<u>5,337,598</u>	<u>(280,848)</u>	<u>25,337,968</u>
Accumulated Depreciation:				
Buildings and Improvements	(3,423,898)	(287,843)	0	(3,711,741)
Machinery and Equipment	(599,640)	(413,857)	32,899	(980,598)
Infrastructure	(1,383,776)	(112,340)	0	(1,496,116)
Vehicles	(923,874)	(455,103)	0	(1,378,977)
Total Accumulated Depreciation	<u>(6,331,188)</u>	<u>(1,269,143)</u>	<u>32,899</u>	<u>(7,567,432)</u>
Total Depreciable Capital Assets	<u>13,950,030</u>	<u>4,068,455</u>	<u>(247,949)</u>	<u>17,770,536</u>
Governmental Capital Assets, Net	<u>\$20,613,437</u>	<u>\$4,147,746</u>	<u>(\$2,205,467)</u>	<u>\$22,555,716</u>

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

Depreciation expense was charged to governmental activities as follows:

<b><u>Governmental Activities:</u></b>	
General Government	\$37,006
Security of Persons and Property	493,130
Leisure Time Activities	36,278
Transportation	246,619
Community Environment	456,110
Total Depreciation Expense	<u>\$1,269,143</u>

CITY OF ZANESVILLE, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 – CAPITAL ASSETS (Continued)**

	Restated Balance 12/31/2002	Additions	Reductions	Balance 12/31/2003
<b><u>Business Type Activities:</u></b>				
Non Depreciable Capital Assets:				
Land	\$453,052	\$0	\$0	\$453,052
Construction in Progress	1,353,677	0	0	1,353,677
Total Non Depreciable Capital Assets	<u>1,806,729</u>	<u>0</u>	<u>0</u>	<u>1,806,729</u>
Depreciable Capital Assets:				
Buildings and Improvements	2,823,239	782,413	0	3,605,652
Machinery and Equipment	1,561,716	7,392	(10,593)	1,558,515
Infrastructure	48,073,685	52,502	(65,717)	48,060,470
Vehicles	1,101,141	15,460	0	1,116,601
Total Depreciable Capital Assets	<u>53,559,781</u>	<u>857,767</u>	<u>(76,310)</u>	<u>54,341,238</u>
Accumulated Depreciation:				
Buildings and Improvements	(1,590,675)	(84,231)	0	(1,674,906)
Machinery and Equipment	(629,652)	(103,211)	10,593	(722,270)
Infrastructure	(22,151,384)	(864,008)	3,447	(23,011,945)
Vehicles	(954,600)	(59,473)	0	(1,014,073)
Total Accumulated Depreciation	<u>(25,326,311)</u>	<u>(1,110,923)</u>	<u>14,040</u>	<u>(26,423,194)</u>
Total Depreciable Capital Assets, Net	<u>28,233,470</u>	<u>(253,156)</u>	<u>(62,270)</u>	<u>27,918,044</u>
Business Type Capital Assets, Net	<u>\$30,040,199</u>	<u>(\$253,156)</u>	<u>(\$62,270)</u>	<u>\$29,724,773</u>

**NOTE 10 - RISK MANAGEMENT**

**A. Primary Government**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Effective June 1, 2003, the City contracted with Arch Insurance Company for general liability insurance including police professional liability, EMT liability, fire legal liability, personal injury and advertising injury. Bodily injury and property damage are covered for \$1,000,000 each occurrence, \$3,000,000 aggregate. The City has a \$5,000 deductible per occurrence for general liability insurance. Personal injury and advertising injury are covered up to \$2,000,000 for each occurrence, premises medical payments limit is \$10,000 per person and fire legal liability is covered \$500,000 per occurrence. Ohio Stop Gap insurance of \$1,000,000 per occurrence and \$3,000,000 aggregate employee benefit liability is also maintained with a \$1,000 deductible for employee liability insurance. Property and contents coverage is maintained per summary of values and cost of reproduction new, less exclusions, plus leased and rented items, with a \$1,000 deductible per occurrence. Earthquake coverage is maintained with a \$5,000,000 occurrence limit, \$10,000,000 policy year limit, with a \$100,000 deductible each occurrence. Police professional liability coverage is maintained with a \$1,000,000 each occurrence, \$1,000,000 aggregate limit with a \$10,000 deductible per claim, including loss adjustment expense.



CITY OF ZANESVILLE, OHIO  
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**NOTE 10 - RISK MANAGEMENT (Continued)**

Public official liability (claims made policy) with full prior acts is maintained in the amount of \$1,000,000 per claim, \$1,000,000 aggregate, with a \$10,000 deductible, including loss adjustment expense.

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

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

Excess liability insurance over general liability, EMT, ambulance malpractice, fire division liability, public official liability, police professional liability, and auto liability is maintained in an aggregate amount of \$5,000,000. Excess liability insurance excludes uninsured/underinsured motorist coverage and is subject to a \$10,000 self insured restriction.

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

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

For 2003, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2I). The intent of the GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participant is calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the AEquity Pooling Fund@. This Aequity pooling@ arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm Comp Management provides administrative, cost control and actuarial services to the GRP.

The City maintains a limited risk health insurance program for employees. Premiums are paid to a third party administrator, Central Benefits, Inc. All claims are processed and monitored by the third party administrator. An internal service fund is presented in the financial statements and reflects premiums paid into the Health Self-Insurance internal service fund by other funds which are available to pay claims and administrative costs, and establish claim reserves. An excess coverage insurance policy covers aggregate annual claims at 110% of estimated claims. No excess coverage is maintained for individual claims.

The claims liability of the Health Self-Insurance internal service fund of \$346,500 reported at December 31, 2003, is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Changes in the fund's claims liability for 2002 and 2003 were:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2002	\$360,300	\$2,532,732	\$2,634,482	\$258,550
2003	258,550	3,232,410	3,144,460	346,500

CITY OF ZANESVILLE, OHIO  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001, were \$592,710, \$555,123, and \$639,158, respectively; 66.83 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the combined plan for 2003 were \$6,113 made by the City and \$3,835 made by the plan members. Contributions to the member-directed plan for 2003 were \$1,949 made by the City and \$1,223 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were for the years ended December 31, 2003, 2002, and 2001, were \$297,627 and \$359,046 for the year ended December 31, 2003, \$271,648 and \$313,171 for the year ended December 31, 2002, and \$296,686 and \$305,726 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 63.9 percent and 64.35 percent, respectively, have been contributed for 2003 with the remainder being reported as a liability.

CITY OF ZANESVILLE, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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

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

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$29,320. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

**B. Ohio Police and Fire Pension Fund**

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

CITY OF ZANESVILLE, OHIO  
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**NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)**

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

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$41,140 for police and \$2,876 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**NOTE 13 - OTHER EMPLOYEE BENEFITS**

A. Other Insurance Benefits

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

The City provides a self-funded comprehensive health insurance plan administered by Central Benefits. Deductibles vary according to employee group: non-union - \$100 family, \$50 single; police/correction officer/AFSCME unions - \$350 family, \$150 single; and firefighters' union - \$300 family, \$100 single. After deductibles, employees are responsible for a 20 percent copayment per claim (major medical). Employees with family coverage are responsible for a \$15.00 payroll deduction per pay for the cost of health insurance.

B. Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Upon retirement, AFSCME union employees and policemen are paid 33 percent of their sick leave up to a maximum of 33 percent of 960 hours. Assistant Fire Chiefs whose work week consists of 56 hours when averaged over a three-week period shall receive, upon retirement, 33 percent of accrued sick leave up to a maximum of 540 hours. Upon retirement, 33 percent of balance with a maximum payment of 540 hours shall be made to firefighters. Police sergeants and lieutenants shall receive, upon retirement, 33 percent of sick leave balances with a maximum of 385 hours. All other uniformed police shall receive, upon retirement, 33 percent of their balance with a maximum of 500 hours. Corrections officers shall receive, upon retirement, 25 percent of their balance with a maximum of 940 hours of sick leave. Unaffiliated employees shall receive 33 percent of balance with a maximum of 385 hours. All employees are required to have ten or more years of service before any compensation for accumulated sick leave is paid upon retirement. Upon voluntary termination, death, or retirement, with the exception of AFSCME employees who have not been employed with the City for a full year, all other employees will receive 100% of vacation earned and not previously taken.

CITY OF ZANESVILLE, OHIO  
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**NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE**

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

Equipment acquired by lease has been capitalized in government wide statements governmental activities in the amount of \$30,449, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability was recorded in the government wide statements governmental activities. Governmental activities capitalized leased assets are reflected net of accumulated depreciation in the amount of \$9,906. Principal payments towards capital leases during 2003 totaled \$6,305.

Future minimum lease payments through 2007 are as follows:

Year	Governmental Activities	
	Principal	Interest
2004	\$5,772	\$1,175
2005	3,626	560
2006	1,182	196
2007	984	50
Total	\$11,564	\$1,981

**NOTE 15 – CONTRACTUAL COMMITMENTS**

As of December 31, 2003, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance Remaining
Governmental Activities:			
Shelter House Project	\$17,000	\$15,000	\$2,000
Business Type Activities:			
Wasterwater Treatment Plant Upgrade	11,723,377	1,353,677	10,369,700
Total	\$11,740,377	\$1,368,677	\$10,371,700

CITY OF ZANESVILLE, OHIO  
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**NOTE 16 - LONG-TERM LIABILITIES**

Changes in the City's long-term liabilities during 2003 consist of the following:

	<u>Outstanding 12/31/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding 12/31/2003</u>	<u>Amounts Due Within One Year</u>
<b><u>Governmental Activities</u></b>					
<b><i>General Obligation Bonds</i></b>					
<b><i>Capital Facilities Improvement - 1993</i></b>					
Jail Construction \$3,150,000 Serial/Term @ 2.90%-5.75%	\$2,440,000	\$0	\$100,000	\$2,340,000	\$2,340,000
<b><i>Capital Improvement Series B - 1989 \$1,410,000</i></b>					
Serial/Term @ 5.9% - 6.9%	710,000	0	80,000	630,000	630,000
<b><i>Ohio Government Building - 1986 \$950,000</i></b>					
Serial/Term @ 7.375%	400,000	0	40,000	360,000	40,000
<b><i>JEDD Bond - 2002 \$325,000</i></b>					
Serial/Term @ 3.0%	325,000	0	63,000	262,000	64,000
<b><i>Capital Facilities Refunding - 2003 \$5,490,000</i></b>					
Jail Construction Refunding - \$2,362,500					
Serial/Term @ 1.2%-4.00%	0	2,362,500	0	2,362,500	140,000
Premium Amortization	0	13,510	0	13,510	0
Capital Improvement Refunding - \$680,000					
Serial/Term @ 2.75%-5.20%	0	680,000	0	680,000	105,000
Premium Amortization	0	3,887	0	3,887	0
Total General Obligation Bonds	<u>3,875,000</u>	<u>3,059,897</u>	<u>283,000</u>	<u>6,651,897</u>	<u>3,319,000</u>
<b><i>Capital Leases</i></b>	17,869	0	6,305	11,564	6,831
<b><i>Compensated Absences - Restated</i></b>	<u>1,075,588</u>	<u>1,599,261</u>	<u>1,052,886</u>	<u>1,621,963</u>	<u>1,020,795</u>
<b>Total Governmental Activities</b>	<u>\$4,968,457</u>	<u>\$4,659,158</u>	<u>\$1,342,191</u>	<u>\$8,285,424</u>	<u>\$4,346,626</u>

CITY OF ZANESVILLE, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 16 - LONG-TERM LIABILITIES (Continued)**

	Outstanding 12/31/2002	Additions	Reductions	Outstanding 12/31/2003	Amounts Due Within One Year
<b>Business Type Activities</b>					
<i>General Obligation Bonds</i>					
<i>Water Improvement Series A, 1989</i>					
Serial/Term @ 5.9%-6.9%	\$378,750	\$0	\$43,750	\$335,000	\$335,000
<i>Sewer Improvements Series A, 1989</i>					
Serial/Term @ 5.9%-6.9%	409,050	0	47,250	361,800	361,800
<i>Storm Sewer Improve. Series A, 1989</i>					
Serial/Term @ 5.9%-6.9%	727,200	0	84,000	643,200	643,200
<i>Capital Facilities Improvement, 1993</i>					
Water \$1,350,000					
Serial/Term @ 2.9% to 5.75%	1,040,000	0	40,000	1,000,000	1,000,000
<i>Capital Facilities Refunding, 2003 \$5,490,000</i>					
Water - \$1,371,250					
Serial/Term @ 1.2%-4.0%	0	1,371,250	0	1,371,250	117,500
Premium Amortization	0	7,840	0	7,840	0
Sewer - \$387,450					
Serial/Term @ 1.2%-4.0%	0	387,450	0	387,450	62,100
Premium Amortization	0	2,215	0	2,215	0
Storm Sewer - \$688,800					
Serial/Term @ 1.2%-4.0%	0	688,800	0	688,800	110,400
Premium Amortization	0	3,938	0	3,938	0
Total General Obligation Bonds	<u>2,555,000</u>	<u>2,461,493</u>	<u>215,000</u>	<u>4,801,493</u>	<u>2,630,000</u>
<i>OWDA Loans</i>					
Water - 1988,1989 \$3,293,470 @ 7.36% to 8.40	1,755,316	410,068	220,405	1,944,979	221,454
Sewer - 1984-1986 \$16,633,305 @ 2.0% to 10.0	<u>3,896,546</u>	<u>1,060,916</u>	<u>464,650</u>	<u>4,492,812</u>	<u>459,737</u>
Total OWDA Loans	<u>5,651,862</u>	<u>1,470,984</u>	<u>685,055</u>	<u>6,437,791</u>	<u>681,191</u>
<i>Compensated Absences - Restated</i>	<u>277,263</u>	<u>228,470</u>	<u>174,357</u>	<u>331,376</u>	<u>189,552</u>
<b>Total Business Type Activities</b>	<u>\$8,484,125</u>	<u>\$4,160,947</u>	<u>\$1,074,412</u>	<u>\$11,570,660</u>	<u>\$3,500,743</u>

**1993 Capital Facilities Improvement Bonds** – On April 1, 1993 the City of Zanesville issued \$4,500,000 of general obligation bonds which included serial and term in the amount of \$1,210,000 and \$3,290,000, respectively. These capital facilities improvement bonds were issued for governmental and business type activities, \$3,150,000 and \$1,350,000, respectively. The business-type portion of this bond issue is addressed below in the business type activity portion of this note. These bonds were refunded with the 2003 Capital Facilities Refunding Bond Issue, but remained outstanding at December 31, 2003. The total outstanding balance of the bonds were subsequently called on February 16, 2004, and as of the date of this report, the bond obligation has been completely satisfied. See Subsequent Event Note for details of the refunding.

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**NOTE 16 - LONG-TERM LIABILITIES (Continued)**

**1989 Capital Improvement Bonds Series A and Series B** – On December 1, 1989, the City of Zanesville issued \$3,020,000 of series A, and \$1,410,000 of series B general obligation bonds. The series A bonds were issued for business type activities and consisted of \$1,040,000 serial bonds, and \$1,980,000 term bonds. The series B bonds were issued for governmental activities and consisted of \$490,000 serial bonds, and \$920,000 term bonds. The bonds were refunded with the 2003 Capital Facilities Refunding Bond Issue, but remained outstanding at December 31, 2003. The total outstanding balance of the bonds were subsequently called on February 16, 2004, and as of the date of this report, the bond obligation has been completely satisfied. See Subsequent Event Note for details of the refunding.

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2004	\$40,000	\$26,550
2005	40,000	23,600
2006	40,000	20,650
2007	40,000	17,700
2008	40,000	14,750
2009-2013	160,000	29,500
Totals	\$360,000	\$132,750

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

Year Ending December 31	Governmental Activities	
	Principal	Interest
2004	\$64,000	\$7,860
2005	65,000	5,940
2006	66,000	3,990
2007	67,000	2,010
Totals	\$262,000	\$19,800



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**NOTE 16 - LONG-TERM LIABILITIES (Continued)**

**2003 Capital Facilities Refunding Bonds** – On December 1, 2003, the City of Zanesville issued \$5,490,000 of general obligation bonds and included serial and term bonds in the amount of \$4,245,000 and \$1,245,000 respectively. These capital facilities refunding bonds were issued for governmental and business type activities \$3,042,500 and \$2,447,500, respectively. The refunding bonds were issued with a premium of \$17,397 for governmental and \$13,993 for business type activities, which is reported as an increase to bonds payable. These amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The issuance costs, \$60,883 for governmental and \$48,975 for business type activities, are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The refunding, once called and paid in February of 2004, will result in a difference between the net carrying amount of the debt and the acquisition price, \$23,380 for governmental and \$10,020 for business type activities. These differences, will be reported as a decrease to bonds payable, and will be amortized to interest expense over the life of the bonds using the straight-line method. The issuance will result in a total economic gain of \$670,906, \$408,047 for governmental activities and \$262,859 for business type activities. These bonds will be repaid through a tax levy, and to the extent available, water and sewer revenues.

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

Principal and interest requirements to retire the 2003 Capital Facilities Refunding Bonds outstanding at December 31, 2003 are as follows:

Year Ending December 31	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2004	\$245,000	\$89,348	\$290,000	\$64,053
2005	253,500	86,408	291,500	60,573
2006	252,000	81,338	303,000	54,743
2007	265,500	76,298	304,500	48,683
2008	274,000	69,661	311,000	41,071
2009-2013	881,000	247,963	574,000	112,163
2014-2016	871,500	104,086	373,500	44,608
Totals	<u>\$3,042,500</u>	<u>\$755,102</u>	<u>\$2,447,500</u>	<u>\$425,894</u>

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

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

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**NOTE 16 - LONG-TERM LIABILITIES (Continued)**

Year Ending December 31	Principal	Interest
2004	\$681,191	\$332,763
2005	510,435	294,852
2006	515,008	261,492
2007	519,774	227,853
2008	553,672	193,941
2009-2013	2,347,119	409,283
Subtotal	5,127,199	\$1,720,184
Not Yet Scheduled	1,310,592	
Total	\$6,437,791	

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

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

**Debt Margin:**

The City's overall legal debt margin was \$27,833,929 at December 31, 2003.

**NOTE 17 – CONTRACTS PAYABLE**

*Port Authority Contract* – On April 1, 2000, the City entered into an agreement with the Zanesville-Muskingum County Port Authority and Muskingum County for construction of infrastructure improvements for the authority. The terms of the agreement called for an OWDA loan to be obtained by the authority in the amount of \$2,114,068 to be repaid over a period of five years. The City and Muskingum County agreed to pay annually, one-half of the required principal and interest requirements of the loan. The City's portion of the obligation has been 30 percent of the repayments being made from governmental activities and 70 percent of the repayments being made from business type activities. The estimated cost to the City for the final remaining payment in 2004 is \$67,226 for principal and \$2,017 for interest being repaid from governmental activities and \$156,861 for principal and \$4,706 for interest being repaid from business type activities.

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

**NOTE 18 – INTERNAL BALANCES**

Interfund balances at December 31, 2003 consist of the following individual interfund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>			
	<u>Major Fund</u>	<u>Internal Service Funds</u>		<u>Total</u>
	<u>General</u>	<u>Vehicle Maintenance</u>	<u>Self Insurance</u>	
Major Funds:				
General Fund	\$0	\$6,445	\$10,685	\$17,130
Police	0	6,818	8,960	15,778
Sewer	0	2,398	3,662	6,060
Water	0	3,705	8,222	11,927
Other Nonmajor				
Governmental	93,576	13,121	6,690	113,387
Vehicle Maintenance Internal Service Fund	0	0	1,371	1,371
Total All Funds	<u>\$93,576</u>	<u>\$32,487</u>	<u>\$39,590</u>	<u>\$165,653</u>

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

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

The remaining interfund receivables/payables are due to lags between the dates interfund goods and services are provided, transactions recorded in the accounting system, and payments between funds were made.

Interfund transfers for the year ended December 31, 2003 consisted of the following:

<u>Transfer from</u>	<u>Transfer to</u>					<u>Totals</u>
	<u>Major Funds</u>				<u>Internal Service Fund</u>	
	<u>Police</u>	<u>Community Development</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental</u>	<u>Vehicle Maintenance</u>	
Major Funds:						
General Fund	\$1,214,937	\$196,232	\$0	\$1,752,636	\$135,189	\$3,298,994
Police	0	0	0	31,573	0	31,573
Sewer	0	0	0	11,468	0	11,468
Water	0	0	0	11,106	0	11,106
Other Nonmajor						
Governmental	0	3,776	100,000	16,215	0	119,991
Total All Funds	<u>\$1,214,937</u>	<u>\$200,008</u>	<u>\$100,000</u>	<u>\$1,822,998</u>	<u>\$135,189</u>	<u>\$3,473,132</u>

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

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**NOTE 18 – INTERNAL BALANCES (Continued)**

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

**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS**

- A. The Ohio Mid-Eastern Governments Association (OMEGA ) is a ten-county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas Counties. OMEGA was formed to aid and assist the participating counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of Zanesville serves as the City's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a thirteen cent per capita membership fee based upon the most recent U.S. census. During 2003, OMEGA received \$3,326 from the City of Zanesville. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debt. Financial information can be obtained from the Ohio Mid-Eastern Governments Association, Cambridge.
- B. The Zanesville/Muskingum County Port Authority is a separate legal entity. The Authority is governed by a five member board and was created by a resolution of the City of Zanesville and Muskingum County. The Authority is incorporated as a non-profit corporation under the laws of the State of Ohio. The City appoints two members to the Authority board and Muskingum County appoints two members. The fifth member is appointed jointly by the City and the County. The Authority board adopts its own budget, is its own contracting authority, hires and fires its own staff, authorizes all expenditures and does not rely on the City or the County to finance deficits. The Authority derives its revenues from lease/rental income, interest income, contributions from the City and County, and other miscellaneous revenue sources. The City and County currently lease the Anchor Glass Facilities from the Authority, and sublet the facilities to the Anchor Glass Corporation. The lease is a twenty year lease which is in effect until 2008. The City and the County, by the terms of the lease agreement, make lease payments directly to National City Bank in conjunction with Anchor Glass which is used for the payment of Authority debt. The City and the County also provide operating subsidies to the Authority. During 2003, the City provided \$120,000 and the County provided \$120,000 in operating subsidies to the Authority. Financial information is available from the Zanesville/Muskingum County Port Authority, Zanesville, Ohio.
- C. The Zanesville/Muskingum Conventions Facility Authority was created pursuant to State Statutes for the purpose of acquiring, constructing, equipping, and operating a convention facility in Muskingum County. The Authority operates under the direction of an eleven member appointed board of directors. The board consists of three members appointed by the Mayor of the City of Zanesville, six members appointed by Muskingum County, and two members appointed by remaining municipal corporations located in the County. The board exercises total control over the operation of the Authority including budgeting, appropriating, contracting, and designating management. The Authority receives funding in the form of a four percent hotel and motel excise tax for each transaction occurring in the boundaries of Muskingum County. The tax is levied and collected by the Authority directly. The City is prohibited from contributing to the operations of the Authority by State Law. During 2003 the Authority received \$396,962 from excise taxes and rental income. The Authority has no outstanding debt. Complete financial information can be obtained from the Zanesville/Muskingum Conventions Facility Authority, Zanesville, Ohio.

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

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**NOTE 19 - JOINTLY GOVERNED ORGANIZATIONS (Continued)**

- D. The Zanesville Metropolitan Housing Authority was created in 1938, and currently operates pursuant to Revised Code Section 3735.27. The Authority is operated by a five member board. The City appoints two members and the County appoints three members. The board adopts their own appropriations, is their own contracting authority, hires and fires their own staff, authorizes all expenditures, and does not rely on the City or the County to finance deficits. The Authority receives funding from the federal government in the form of grants. All monies are received directly by the Authority in the Authority's name. Although the City appoints members to the board, the City is not financially accountable for the Authority, nor is the Authority fiscally dependent on the City. The Authority has no outstanding debt. Complete financial information can be obtained from the Zanesville Metropolitan Housing Authority, Zanesville, Ohio.
- E. The Muskingum County Center for Seniors (Center) is a jointly governed organization which operates as a not-for-profit organization created under 501(c)(3) of the Internal Revenue Code. The Center provides various services to seniors, including transportation services, nutritional and physical fitness information and instruction, meals, and legal counseling. The Center is governed by a seven member board consisting of three members appointed by the Muskingum County Board of County Commissioners, three members appointed by the Mayor of the City of Zanesville, and one member appointed by the above appointed six members. The Center was the recipient of support from the Muskingum County Senior Services Levy. Additional revenue is provided through contracts with the Area Agency on Aging. Continued existence of the Center is not dependent upon the City's continued participation, no equity interest exists, and no debt is outstanding.

**NOTE 20 - JOINT VENTURES**

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

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

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

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

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**NOTE 20 - JOINT VENTURES (Continued)**

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

**NOTE 21 - INSURANCE PURCHASING POOL**

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

**NOTE 22 - RELATED PARTY TRANSACTIONS**

The South East Area Transit Authority, a discretely presented component unit of the City of Zanesville, received contributions from the City for facilities, certain equipment, transportation and salaries for administrative implementation and supervision of its programs. These contributions are reflected as "Contributions from Local Governments" and "Operating Expenses" in the basic financial statements. In 2003, these contributions were \$160,000. In 2003, \$72,913 was contributed by Muskingum County, Guernsey County, the Village of South Zanesville, and the Village of Byesville.

**NOTE 23 - CONTINGENCIES**

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

B. Litigation

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

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

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**NOTE 24 - SUBSEQUENT EVENT NOTE**

**OWDA Loan Interest Subsidy** – On May 29, 2003, the Ohio Water Development Authority Board authorized an Interest Rate Subsidy program. This program will benefit the City of Zanesville since it has outstanding interest rates on loans in excess of 7 percent. Under the program, OWDA will effectively reduce the interest rate on the outstanding balance of these loans to 7 percent by paying the portion of the interest above 7 percent. Implementation of the subsidy program will commence with the payment due on January 1, 2004 and will carry through to the maturity date of the affected loans.

**2003 Capital Facility Refunding Bonds** – On December 1, 2003, the City of Zanesville issued \$5,490,000 of general obligation bonds and included serial and term bonds in the amount of \$4,245,000 and \$1,245,000 respectively. These capital facilities refunding bonds were issued for governmental and business type activities \$3,042,500 and \$2,447,500, respectively. The amount of the refunding bonds were included in the financial statements as cash and cash equivalents, as the bonds were not called as of December 31, 2003. The bonds were subsequently called on February 16, 2004, and as of the date of this report, all bonds have been redeemed.

**NOTE 25 – COMPONENT UNIT NOTES**

**NOTE 1 - DESCRIPTION OF THE AUTHORITY AND REPORTING ENTITY**

*Description of the Authority*

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

In 2003, the Authority had 45 full-time equivalent employees. Approximately 77% of the Authority’s employees at December 31, 2003 are subject to a collective bargaining agreement expiring on March 31, 2003.

*Description of the Reporting Entity*

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit’s board and either (1) the reporting entity’s ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. The Authority does not have financial accountability over any entities.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Authority’s accounting policies are described below.

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

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

**Basis of Accounting**

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

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

**New Accounting Pronouncements**

Effective January 1, 2003, the Authority implemented the provisions of GASB Statement 34, “Basic Financial Statements-and Management’s Discussion and Analysis -for State and Local Governments,” Statement No. 37, “Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments: Omnibus,” and Statement No. 38, “Certain Financial Statement Disclosures.” These statements revise accounting and reporting standards for general purpose external financial reporting by governmental units. These statements change the Authority’s presentation of net assets and require the inclusion of management’s discussion and analysis.

**Budgetary Accounting and Control**

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

**Cash and Cash Equivalents**

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

**Recognition of Receivables and Revenue**

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

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

**Inventory of Materials and Supplies**

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



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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

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

Property and Depreciation

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

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

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

Net Assets

Equity displayed in three components as follows:

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

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

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

Compensated Absences

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

Estimates

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

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

**NOTE 3 - CASH AND INVESTMENTS**

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

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

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

**Deposits**

The carrying amount of the Authority's deposits was \$365,490 at December 31, 2003 with a \$398,033 bank balance. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$298,033 was uninsured and uncollateralized as defined by the Governmental Accounting Standards Board (GASB). The uncollateralized deposits were, however, covered by the financial institutions' risk pool for public deposits as governed by the Ohio Revised Code Section 135.

**Investments**

Investments are categorized into three (3) credit risk categories to give an indication of the level of risk assumed by the Authority at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agents in the Authority's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name. The Authority held no investments at December 31, 2003.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Receivables at December 31, 2003 consisted of accounts (billings for user charges services) and intergovernmental grants. All receivables are considered collectible in full therefore, an allowance for uncollectible accounts receivable is not considered necessary.

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

**NOTE 4 - ACCOUNTS RECEIVABLE**

A summary of the principal items of intergovernmental receivables at December 31, 2003 consisted of the following amounts:

Federal Operating Assistance Receivable	\$123,892
State Operating Assistance Receivable	4,629
Job Access and Reverse Commute Program Receivable	44,127
Total	\$172,648

**NOTE 5 - CAPITAL ASSETS**

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

<i>Asset Type:</i>	Balance at 12/31/2002	Additions	Deletions	Balance at 12/31/2003
Land	\$35,000	\$299,255	\$0	\$334,255
Buildings	670,697	936,329	0	1,607,026
Buses	1,684,768	92,603	(198,469)	1,578,902
Service and Staff Vehicles	73,249	0	0	73,249
Furniture, Fixtures and Equipment	450,731	47,738	0	498,469
Construction in Progress	1,177,085	58,500	(1,235,585)	0
Total Capital Assets	4,091,530	1,434,425	(1,434,054)	4,091,901
 <i>Accumulated Depreciation:</i>				
Buildings	(452,556)	(64,325)	0	(516,881)
Buses	(865,536)	(157,558)	196,869	(826,225)
Service and Staff Vehicles	(41,765)	(10,216)	0	(51,981)
Furniture, Fixtures and Equipment	(294,280)	(65,749)	0	(360,029)
Accumulated Depreciation	(1,654,137)	(297,848)	196,869	(1,755,116)
Capital Assets, Net of Accumulated Depreciation	\$2,437,393	\$1,136,577	(\$1,237,185)	\$2,336,785

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

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

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

The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The employee contribution rates are 8.5% for employees other than law enforcement and for 2003, the Authority is required to contribute 13.55%. The Authority's required contributions to OPERS for the years ending December 31, 2003, 2002 and 2001 were \$152,624, \$129,168, and \$129,504, respectively; 92% has been contributed for 2003, and 100% has been contributed for 2002 and 2001. Of the 2003 amount, \$12,176 was unpaid at December 31, 2003 and is recorded as a liability.

**NOTE 7 - POSTEMPLOYMENT BENEFITS**

The OPERS also provides postemployment health care benefits to age and service retirants with ten (10) or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll; 5% was the portion that was used to fund health care for the year 2003.

Of the employer contributions made by the Authority for the year 2003, \$56,319 was the amount used to fund postemployment health care.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4% annually.

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

**NOTE 7 - POSTEMPLOYMENT BENEFITS (Continued)**

As of December 31, 2003, the number of active contributing participants was 364,881. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002 was \$10 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion respectively.

As of December 31, 2002, the latest information year available, the actuarial value of net assets available for other postemployment benefits payments was \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively. The number of active contributing participants at December 31, 2002, the latest information year available, was 364,881.

**NOTE 8 - COMPENSATED ABSENCES**

GASB Statement No. 16 establishes criteria for compensated absences. Compensated absences for vacation leave and benefits with similar characteristics should be recorded as a liability when earned by employees if the following conditions are satisfied:

1. The compensated absence is earned on the basis of services already performed by employees; and
2. It is probable that the compensated absence will be paid in a future period.

The Authority records compensated absences for vacation leave in accordance with GASB Statement No. 16. However, since accrued sick leave is not paid upon termination, no liability is recorded.

**NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE**

Grants, reimbursements and special fare assistance in the statement of revenues, expenses and changes in equity for the year ended December 31, 2003 consist of the following:

Federal

FTA Capital Assistance	\$146,663
FTA Operating Assistance	601,080
Total	\$747,743

State

ODOT Operating Assistance	\$385,464
ODOT Elderly Fare Assistance	12,104
Total	\$397,568

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

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**NOTE 25 – COMPONENT UNIT NOTES (Continued)**

**NOTE 9 - GRANTS, REIMBURSEMENTS AND SPECIAL FARE ASSISTANCE (Continued)**

<u>Local</u>	
City of Zanesville	\$160,000
Village of South Zanesville	4,660
Village of Bylesville	2,000
Guernsey County	26,253
Muskingum County	40,000
Total	\$232,913

**NOTE 10 - RISK MANAGEMENT**

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

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

**NOTE 11 - CONTINGENCIES**

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

City of Zanesville  
Muskingum County  
Schedule of Federal Awards Receipts and Expenditures  
For the Year Ended December 31, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<b>United States Department of Agriculture</b>				
<i>Passed through the Ohio Department of Education</i>				
Summer Food Service Program for Children	N	10.559	53,342	52,660
<b>Total United States Department of Agriculture</b>			53,342	52,660
<b>United States Department of Housing and Urban Development</b>				
<i>Passed through the Ohio Department of Development</i>				
Community Development Block Grant/State's Program	A-C-02-204-1	14.228	143,668	143,666
	A-F-01-204-1	14.228	87,250	87,250
	A-F-02-204-1	14.228	172,970	172,965
	A-F-02-204-1	14.228	5,000	3,000
	A-L-02-204-1	14.228	44,850	44,850
	A-L-03-204-1	14.228	14,950	14,950
	A-M-01-204-1	14.228	3,650	15,554
	A-N-02-204-1	14.228	6,305	6,393
Total Community Development Block Grant/State's Program			478,643	488,628
<b>Total US Department of Housing and Urban Development</b>			478,643	488,628
<b>United States Department of Justice</b>				
<i>Passed through the Ohio Department of Rehabilitation and Correction</i>				
Local Law Enforcement Block Grants Program	02-LB-BX-2068	16.592	0	19,374
	03-LB-BX-2417	16.592	24,739	0
			24,739	19,374
Public Safety, Partnership and Community Policing Grants	95-CF-WX-2981	16.710	7,185	0
<b>Total United States Department of Justice</b>			31,924	19,374
<b>United States Department of Transportation</b>				
<i>Direct from the Federal Agency</i>				
Airport Improvement Program	N/A	20.106	481,083	520,859
<i>Passed through the Ohio Department of Transportation</i>				
Highway Planning and Construction	TE-21-G020-559	20.205	254,299	254,299
<b>Total United States Department of Transportation</b>			735,382	775,158
<b>United States Department of Homeland Security</b>				
<i>Passed through the Ohio Emergency Management Agency</i>				
Public Assistance Grants	1453-DR-119-88084	97.036	24,698	24,698
<b>Total United States Department of Homeland Security</b>			24,698	24,698
<b>Total Federal Financial Assistance</b>			\$1,323,989	\$1,360,518

NA - Not applicable, Direct Grant

N - Pass through entity numbers could not be located by the entity

See accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures.

CITY OF ZANESVILLE, OHIO  
NOTES TO THE SCHEDULE OF AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2003

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**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – MATCHING REQUIREMENTS**

Certain federal programs require the City to contribute non-federal funds (matching funds) to support the federally funded programs. The City has complied with the matching requirements. The expenditures of non-federal matching funds are not included on the Schedule.

**NOTE C – LOANS OUTSTANDING**

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households. The U.S. Department of Housing and Urban Development (HUD) grants the money for these loans to the City, passed through the State Department of Development. The initial loan of this money is recorded as a disbursement on the Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD. Significant delinquencies existing at December 31, 2003 were \$63,472 in principal and \$20,948 in interest for outstanding Housing Program loans.

The City had the following loan balances outstanding at December 31, 2003:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
CDBG Economic Development Revolving Loan Fund Program	14.228	\$265,475
CDBG Housing Program	14.228	\$163,455

**NOTE D – SUB -RECIPIENTS**

The City passes through the Federal Emergency Shelter Grant Program assistance from the State Department of Development to the Salvation Army, a not-for-profit corporation. This program is identified on the accompanying Schedule of Federal Awards Receipts and Disbursements as Community Development Block Grant Programs A-L-02-204-1 and A-L-03-204-1 in the amounts of \$44,850 and \$14,950, respectively. As described in Note 1, the City records expenditures of federal awards to sub-recipients when paid in cash.

The sub-recipient agency has certain compliance responsibilities related to administering this federal program. Under *OMB Circular A-133*, the City is responsible for monitoring sub-recipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and the performance goals are achieved.



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Ohio Society of Certified Public Accountants

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Zanesville, Muskingum County, Ohio, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 24, 2004. We did not audit the financial statements of South East Area Transit Authority which is included as a discretely presented component unit in the City's financial statements. Those financial statements were audited by other auditors, following *Government Auditing Standards* and their report thereon has been furnished to us. Our opinion, insofar as it relates to the component unit, is based on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance**

As part of obtaining reasonable assurance about whether the City financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City in a separate letter date November 24, 2004.

City Council  
Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*  
Page 2

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

Balestra, Harr and Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

November 24, 2004

# BALESTRA, HARR & SCHERER, CPAs, INC.

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

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

### **Compliance**

We have audited the compliance of the City of Zanesville, Muskingum County, Ohio, (the City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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

### **Internal Control Over Compliance**

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

City Council  
Report on Compliance With Requirements Applicable to Each  
Major Federal Program and Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
Page 2

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

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

Balestra, Harr and Scherer, CPAs, Inc.  
Balestra, Harr & Scherer, CPAs, Inc.

November 24, 2004

**CITY OF ZANESVILLE  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GA GAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Community Development Block Grants/State's Program (CFDA #14.228); Highway Planning and Construction (CFDA #20.205)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF ZANES VILLE  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(CONTINUED)**

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

Finding Number	None
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**3. FINDINGS FOR FEDERAL AWARDS**

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	

**CITY OF ZANESVILLE  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE YEAR ENDED DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Deficit Fund (Cash) Balance	Yes	







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**CITY OF ZANESVILLE**

**MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 28, 2004**