



**Auditor of State
Betty Montgomery**

CITY OF CAMBRIDGE
GUERNSEY COUNTY

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CITY OF CAMBRIDGE
GUERNSEY COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Cambridge
Guernsey County
1131 Steubenville Avenue
Cambridge, Ohio 43725

To the City Council:

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

As discussed in Note 2H to the financial statements, management has not recorded general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets purchased since January 1, 1980 be capitalized and depreciated, which would increase the assets, net assets and expenses of the governmental activities. We cannot reasonably determine the amount by which this departure would affect the assets, net assets and expenses of the governmental activities.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Cambridge, Guernsey County, Ohio, as of December 31, 2003, and the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cambridge, Guernsey County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General and Fire Funds thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph three, governmental activities' assets and net asset presented in Table 1 are understated due to the omission of infrastructure assets. Also, the changes in governmental activities' net assets presented in Table 2 are overstated since they do not include depreciation expense related to infrastructure assets.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Federal Awards Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

February 10, 2005

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Cambridge's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- ❑ General Revenues accounted for \$7.9 million in revenue or 50% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$7.9 million or 50% of total revenues of \$15.8 million.
- ❑ Total program expenses were \$16 million, \$11.3 million in governmental activities and \$4.7 million in business-type activities.
- ❑ In total, net assets decreased \$204,722. Net assets of governmental activities decreased \$78,479, which represents a 8% decrease from 2002. Net assets of business-type activities decreased \$126,243 or 9% from 2002.
- ❑ Outstanding bonded debt decreased from \$10,106,151 to \$9,550,830 through principal payments.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of Cambridge as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2003 and how they affected the operations of the City as a whole.

Reporting the City of Cambridge as a Whole

Statement of Net Assets and the Statement of Activities

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 finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of the City of Cambridge, the general fund and fire fund are by far the most significant funds. The water and sewer funds are the most significant business-type funds.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

A question typically asked about the City's finances "How did we do financially during fiscal year 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 method used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- ❑ **Governmental Activities** - Most of the City's programs and services are reported here, including general government, security of persons and property, public health, community and economic development, leisure time activities and transportation.
- ❑ **Business-Type Activities** - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water and sewer funds are reported as business activities.

Reporting the City of Cambridge's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the fire fund.

Governmental Funds - Most of the City's activities are reported in 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 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 to finance future services. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and fire fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and each major special revenue fund to demonstrate compliance with this budget.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities (water and sewer); therefore, these statements will essentially match.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

The City of Cambridge as a Whole

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2003 compared to 2002:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$ 8,012,783	\$ 8,406,543	\$ 5,489,675	\$ 5,659,673	\$ 13,502,458	\$ 14,066,216
Capital Assets	5,748,062	5,627,594	16,195,319	16,524,722	21,943,381	22,152,316
Total Assets	13,760,845	14,034,137	21,684,994	22,184,395	35,445,839	36,218,532
Liabilities						
Long-Term Liabilities	1,742,329	1,308,837	8,521,092	8,690,685	10,263,421	9,999,522
Other Liabilities	2,513,237	3,141,542	382,889	586,454	2,896,126	3,727,996
Total Liabilities	4,255,566	4,450,379	8,903,981	9,277,139	13,159,547	13,727,518
Net Assets						
Invested in Capital Assets Net of Debt	5,243,502	4,910,587	8,051,621	16,698,358	13,295,123	21,608,945
Restricted	3,934,387	3,771,670	517,745	7,741	4,452,132	3,779,411
Unrestricted (Deficit)	327,390	901,501	4,211,647	(3,798,843)	4,539,037	(2,897,342)
Total Net Assets	\$ 9,505,279	\$ 9,583,758	\$ 12,781,013	\$ 12,907,256	\$ 22,286,292	\$ 22,491,014

Total assets decreased by \$772,693 with governmental assets decreasing \$273,292 and business-type assets decreasing \$499,401. A decrease of approximately \$208,935 in total capital assets reflects depreciation exceeding additional purchases and was the majority of the decrease in business-type assets. Total liabilities decreased by \$567,971. The majority of this decrease was attributable to decreased deferred revenue.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Total net assets decreased by \$204,722. This number reflects a decrease in governmental activities and a decrease in the net assets of the business-type activities.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2003	2003	2003
Revenues			
<i>Program Revenues:</i>			
Charges for Services	\$ 1,666,321	\$ 4,625,913	\$ 6,292,234
Operating Grants	1,077,429	0	1,077,429
Capital Grants	551,391	0	551,391
<i>General Revenue:</i>			
Property Taxes	1,711,455	0	1,711,455
Income Taxes	4,263,679	0	4,263,679
Grants and Entitlements	1,175,653	0	1,175,653
Investments	243,702	2,084	245,786
Other	501,873	25,616	527,489
Total Revenues	11,191,503	4,653,613	15,845,116
Program Expenses			
General Government	3,175,669	0	3,175,669
Security of Persons and Property	3,648,697	0	3,648,697
Transportation	2,088,413	0	2,088,413
Public Health	237,086	0	237,086
Community and Economic Development	1,316,954	0	1,316,954
Leisure Time Services	749,803	0	749,803
Interest and Fiscal Charges	53,360	0	53,360
<i>Enterprise Operations:</i>			
Water	0	2,199,373	2,199,373
Sewer	0	2,580,483	2,580,483
Total Program Expenses	11,269,982	4,779,856	16,049,838
Change in Net Assets	(78,479)	(126,243)	(204,722)

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Governmental Activities

The funding for the governmental activities comes from several different sources, the most significant being the municipal income tax. Other prominent sources are property taxes, grants and entitlements, charges for services and investment interest.

The City's income tax is at a rate of 1.5 percent. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 1 percent for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax and intergovernmental funding all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$3,648,697 represents 32 percent of the total expenses. The police department operates out of the General fund and the fire department operates out of the Fire fund.

Our Street Maintenance and Repair Department provides the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. These expenses totaled \$2,088,413 during 2003.

The City also maintains a cemetery (public health) and a park (leisure time services) within the City. These areas had expenses of \$986,889 in 2003 equaling 9 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water and sewer operations. The revenues are generated primarily from charges for services. In 2003, charges for services of \$4,625,913 accounted for 99 percent of the revenues. The total expenses for the utilities were \$4,779,856, thus leaving a decrease in net assets of \$126,243 for the business-type activities.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The City's Funds

Information about the City's governmental funds begins on page 29. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$12,282,855 and expenditures of \$12,777,507. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 30. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$4,651,529, which exceeded operating expenses of \$4,370,891 by \$280,638 or 6 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund.

During the course of 2003, the City amended its general fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis revenue was \$5.6 million, above the original budget estimates of \$5.4 million. Of this approximate \$200,000 increase, most was attributable to increased income tax revenue and increased fine collections.

Final appropriations of \$5.7 million, were approximately \$100,000 higher than the \$5.6 million in the original budget. Salaries, liability/property/fleet insurance, and county auditor fees (for tax collections) proved to be higher than anticipated. Property/liability/fleet insurances saw significant increases in response to the events of September 11, 2001.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of year 2003, the City had \$21.9 million invested in land, buildings, improvements, equipment, furniture, water and sewer lines, vehicles and construction in progress. A total of \$5.7 million of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2003 balances compared with 2002.

(Table 3)
Capital Assets at December 31
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,512,402	\$ 1,471,789	\$ 216,900	\$ 216,900	\$ 1,729,302	\$ 1,688,689
Land Improvements	42,419	46,501	0	0	42,419	46,501
Buildings	1,966,745	1,644,359	5,364,399	5,647,913	7,331,144	7,292,272
Improvements Other Than Buildings	924,015	995,594	6,396,797	6,528,607	7,320,812	7,524,201
Equipment and Machinery	1,063,162	1,149,630	260,227	249,791	1,323,389	1,399,421
Furniture and Equipment	38,813	43,685	17,346	26,838	56,159	70,523
Vehicles	200,506	276,036	83,125	119,295	283,631	395,331
Water Lines	0	0	1,489,222	1,525,150	1,489,222	1,525,150
Sewer Lines	0	0	2,157,076	2,210,228	2,157,076	2,210,228
Construction in Progress	0	0	210,227	0	210,227	0
Totals	\$ 5,748,062	\$ 5,627,594	\$ 16,195,319	\$ 16,524,722	\$ 21,943,381	\$ 22,152,316

The \$208,935 decrease in capital assets was attributable to depreciation expense exceeding additional purchases. Note 10 provides capital asset activity during the 2003 year. The City chose not to capitalize general infrastructure for governmental activities.

City of Cambridge
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Debt

The outstanding debt for the City of Cambridge as of December 31, 2003 was \$9,550,830. This balance reflected a reduction of \$555,321 from the previous year's balance of \$10,106,151, a reduction of 5.5 percent. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Mortgage Revenue Bonds	\$ 0	\$ 0	\$ 2,498,035	\$ 2,642,828	\$ 2,498,035	\$ 2,642,828
Special Assessment Bonds	163,802	173,636	0	0	163,802	173,636
OWDA Loans	0	0	5,655,479	5,872,623	5,655,479	5,872,623
OPWC Loans	21,759	35,535	166,012	175,234	187,771	210,769
General Obligation Bonds	180,000	350,000	0	0	180,000	350,000
Police and Fire Pension	548,099	556,295	0	0	548,099	556,295
John Deere Mower Loan	17,644	0	0	0	17,644	0
Notes Payable	300,000	300,000	0	0	300,000	300,000
<i>Total</i>	<u>\$ 1,231,304</u>	<u>\$ 1,415,466</u>	<u>\$ 8,319,526</u>	<u>\$ 8,690,685</u>	<u>\$ 9,550,830</u>	<u>\$ 10,106,151</u>

The general obligation bonds are composed of recreational facility bonds that were used for the construction of a swimming pool. The principal and interest for these bonds are paid from the collection of property taxes.

The special assessment bonds consist of waterline and sewerline improvements. The principal and interest for these bonds are paid from the collection of special assessments by the County Auditor from the specific property owners who primarily benefited from the projects.

Additional information concerning the City's debt can be found in note 14 to the basic financial statements. See note 16 for additional information regarding notes payable.

Economic Factors

The City of Cambridge, by way of the Continuous Street Improvement Program, was able in 2004, to pave 14 miles of streets. In 2005, we anticipate more than 9 miles being completed, as well as the \$1.8 million dollar Creek Drive project, an O.D.O.T Special Small Cities Grant. Also, over 30 alleys have been chipped and sealed preparing the way for our future continuous alley improvement plan. All traffic control signals in the city will be electronic with the completion of the N. Clark Street widening project. The 1999 EPA lawsuit was finally settled in 2004 regarding sewer violations. The City is in full compliance for the first time in years with the EPA accreditation. The Cambridge Water Plant and Distribution had zero violations in 2004. This is the first time this has occurred in over 10 years. The City Engineer's Office and the Economic & Community Development Dept. played important roles in retaining the Ridge Tool Co in the D.O. Hall Industrial Park. The City secured the funding and infrastructure for the water and sewer. This helped keep 100 jobs in Guernsey County and expanded the city's utilities. We have experienced major economic success in Cambridge with the arrival of Encore Plastics, Telling Industries, Ohio Bureau of Workers Comp, and the expansion of Ridge Tool and Detroit

City of Cambridge
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Diesel, not to mention the growth of downtown Cambridge. We are looking forward with anticipation, of the annexation of the Cambridge City Schools that should come about in early 2005. The Cambridge Regional Airport will begin construction on a new entrance driveway, that will in turn, allow for construction of a new corporate hanger. Also, complete the construction of a fueling system that will allow credit card and self service for aircraft.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Suellen Johnson, Auditor of City of Cambridge, 1131 Steubenville Ave., Cambridge, Ohio 43725 or email camb-auditor@cambridgeoh.org.

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City of Cambridge
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 2,437,162	\$ 4,116,147	\$ 6,553,309
Cash and Cash Equivalents in Segregated Accounts	703,105	91,309	794,414
Investments	40,117	0	40,117
Materials and Supplies Inventory	25,105	12,277	37,382
Accrued Interest Receivable	2,992	0	2,992
Accounts Receivable	97,782	685,982	783,764
Internal Balances	21,549	(21,549)	0
Intergovernmental Receivable	1,773,603	0	1,773,603
Prepaid Items	6,882	18,060	24,942
Taxes Receivable	2,745,244	0	2,745,244
Loans Receivable	31,060	0	31,060
Special Assessments Receivable	128,182	0	128,182
Deferred Charge	0	69,704	69,704
Restricted Assets:			
Cash and Cash Equivalents	0	517,745	517,745
Non-Depreciable Capital Assets	1,512,402	427,127	1,939,529
Depreciable Capital Assets, net	4,235,660	15,768,192	20,003,852
<i>Total Assets</i>	<u>13,760,845</u>	<u>21,684,994</u>	<u>35,445,839</u>
Liabilities			
Accounts Payable	101,838	80,016	181,854
Accrued Wages	217,280	57,959	275,239
Contracts Payable	158,584	7,562	166,146
Intergovernmental Payable	248,927	111,645	360,572
Accrued Interest Payable	4,179	11,234	15,413
Due to Others	0	114,473	114,473
Claims Payable	85,348	0	85,348
Deferred Revenue	1,397,081	0	1,397,081
Notes Payable	300,000	0	300,000
Long-Term Liabilities:			
Due Within One Year	312,118	620,977	933,095
Due in More Than One Year	1,430,211	7,900,115	9,330,326
<i>Total Liabilities</i>	<u>4,255,566</u>	<u>8,903,981</u>	<u>13,159,547</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	5,243,502	8,051,621	13,295,123
Restricted for Debt Service	435,051	398,825	833,876
Restricted for Capital Outlay	1,576,304	0	1,576,304
Restricted for Other Purposes	1,923,032	118,920	2,041,952
Unrestricted	327,390	4,211,647	4,539,037
<i>Total Net Assets</i>	<u>\$ 9,505,279</u>	<u>\$ 12,781,013</u>	<u>\$ 22,286,292</u>

See accompanying notes to the basic financial statements.

City of Cambridge
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues				Net(Expense)Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 3,175,669	\$ 134,460	\$ 0	\$ 0	\$ (3,041,209)	\$ 0	\$ (3,041,209)
Security of Persons and Property	3,648,697	1,209,078	225,508	0	(2,214,111)	0	(2,214,111)
Public Health	237,086	146,571	11,034	0	(79,481)	0	(79,481)
Leisure Time Services	749,803	168,936	0	0	(580,867)	0	(580,867)
Community and Economic Development	1,316,954	0	840,887	0	(476,067)	0	(476,067)
Transportation	2,088,413	7,276	0	551,391	(1,529,746)	0	(1,529,746)
Interest and Fiscal Charges	53,360	0	0	0	(53,360)	0	(53,360)
<i>Total Governmental Activities</i>	<u>11,269,982</u>	<u>1,666,321</u>	<u>1,077,429</u>	<u>551,391</u>	<u>(7,974,841)</u>	<u>0</u>	<u>(7,974,841)</u>
Business-Type Activities:							
Sewer Fund	2,199,373	2,069,978	0	0	0	(129,395)	(129,395)
Water Fund	2,580,483	2,555,935	0	0	0	(24,548)	(24,548)
<i>Total Business-Type Activities</i>	<u>4,779,856</u>	<u>4,625,913</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(153,943)</u>	<u>(153,943)</u>
<i>Total - Primary Government</i>	<u>\$ 16,049,838</u>	<u>\$ 6,292,234</u>	<u>\$ 1,077,429</u>	<u>\$ 551,391</u>	<u>\$ (7,974,841)</u>	<u>\$ (153,943)</u>	<u>\$ (8,128,784)</u>

General Revenues:

Property Taxes Levied for:						
General Purposes				322,962	0	322,962
Other Purposes				1,388,493	0	1,388,493
Income Taxes Levied for:						
General Purposes				3,035,930	0	3,035,930
Other Purposes				1,227,749	0	1,227,749
Grants and Entitlements not Restricted to Specific Programs				1,175,653	0	1,175,653
Investment Earnings				243,702	2,084	245,786
Loss on Sale of Capital Assets				(34,387)	0	(34,387)
Miscellaneous				536,260	25,616	561,876
<i>Total General Revenues</i>				<u>7,896,362</u>	<u>27,700</u>	<u>7,924,062</u>
<i>Change in Net Assets</i>				<u>(78,479)</u>	<u>(126,243)</u>	<u>(204,722)</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>				<u>9,583,758</u>	<u>12,907,256</u>	<u>22,491,014</u>
<i>Net Assets End of Year</i>				<u>\$ 9,505,279</u>	<u>\$ 12,781,013</u>	<u>\$ 22,286,292</u>

See accompanying notes to the basic financial statements.

City of Cambridge
Balance Sheet
Governmental Funds
December 31, 2003

	General Fund	Fire Fund	All Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 146,324	\$ 160,463	\$ 2,130,375	\$ 2,437,162
Cash and Cash Equivalents in Segregated Accounts	0	0	703,105	703,105
Investments	0	0	40,117	40,117
Materials and Supplies Inventory	0	0	25,105	25,105
Accrued Interest Receivable	2,968	0	24	2,992
Accounts Receivable	59,582	0	38,200	97,782
Interfund Receivable	0	0	186,717	186,717
Intergovernmental Receivable	443,344	53,574	1,276,685	1,773,603
Prepaid Items	3,616	844	2,422	6,882
Taxes Receivable	1,150,050	1,171,505	423,689	2,745,244
Loans Receivable	0	0	31,060	31,060
Special Assessments Receivable	0	0	128,182	128,182
<i>Total Assets</i>	<u>\$ 1,805,884</u>	<u>\$ 1,386,386</u>	<u>\$ 4,985,681</u>	<u>\$ 8,177,951</u>
Liabilities				
Accounts Payable	33,014	946	67,878	101,838
Accrued Wages	141,208	48,104	27,968	217,280
Contracts Payable	0	0	158,584	158,584
Intergovernmental Payable	50,766	22,654	21,118	94,538
Accrued Interest Payable	0	0	3,380	3,380
Interfund Payable	233,970	10,329	6,217	250,516
Deferred Revenue	698,364	1,225,079	1,366,653	3,290,096
Notes Payable	0	0	300,000	300,000
<i>Total Liabilities</i>	<u>1,157,322</u>	<u>1,307,112</u>	<u>1,951,798</u>	<u>4,416,232</u>
Fund Balances				
Reserved for Encumbrances	15,835	166	121,035	137,036
Reserved for Inventory	0	0	25,105	25,105
Reserved for Debt Service	0	0	250,757	250,757
Reserved for Loans Receivable	0	0	31,060	31,060
Unreserved, Undesignated, Reported in:				
General Fund	632,727	0	0	632,727
Special Revenue Funds	0	79,108	2,062,906	2,142,014
Debt Service Funds	0	0	443	443
Capital Projects Funds	0	0	542,577	542,577
<i>Total Fund Balances</i>	<u>648,562</u>	<u>79,274</u>	<u>3,033,883</u>	<u>3,761,719</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,805,884</u>	<u>\$ 1,386,386</u>	<u>\$ 4,985,681</u>	<u>\$ 8,177,951</u>

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances \$ 3,761,719

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

Capital assets used in governmental activities are not financial
 resources and therefore are not reported in the funds 5,748,062

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

Property Taxes	204,386	
Income Tax	220,265	
Intergovernmental	1,309,122	
Charges for Services	159,242	
Total	1,893,015	1,893,015

Intergovernmental payable includes contractually required
 pension contributions not expected to be paid with
 expendable available financial resources and therefore
 not reported in the funds. (154,389)

Accrued interest payable is not due and payable in the current
 period and therefore is not reported in the funds. (799)

Long-term liabilities are not due and payable in the current
 period and therefore are not reported in the funds:

General Obligation Bonds	(180,000)	
Special Assessment Bonds	(163,802)	
Loan Payable	(17,644)	
OPWC Loans	(21,759)	
Capital Leases	(143,405)	
Police and Fire Pension	(548,099)	
Compensated Absences	(667,620)	
Total	(1,742,329)	(1,742,329)

Net Assets of Governmental Activities \$ 9,505,279

See accompanying notes to the basic financial statements.

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

	General Fund	Fire Fund	All Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$ 305,920	\$ 1,133,662	\$ 77,162	\$ 1,516,744
Income Taxes	2,883,298	0	1,166,304	4,049,602
Special Assessments	0	0	136,716	136,716
Charges for Services	0	139,270	301,906	441,176
Licenses and Permits	134,460	0	7,276	141,736
Fines and Forfeitures	561,145	0	508,213	1,069,358
Intergovernmental	870,729	108,004	2,135,563	3,114,296
Interest	185,615	0	58,087	243,702
Rent	13,601	0	0	13,601
Other	300,093	19,469	200,840	520,402
<i>Total Revenues</i>	<u>5,254,861</u>	<u>1,400,405</u>	<u>4,592,067</u>	<u>11,247,333</u>
Expenditures				
General Government	3,004,538	0	194,145	3,198,683
Security of Persons and Property	1,644,980	1,228,868	657,991	3,531,839
Public Health	588	0	227,112	227,700
Lesiure Time Services	412,478	0	204,229	616,707
Community and Economic Development	145,608	0	1,167,178	1,312,786
Transportation	296	0	2,050,283	2,050,579
Capital Outlay	14,519	0	502,483	517,002
Debt Service:				
Principal Retirements	14,987	47,255	236,254	298,496
Interest and Fiscal Charges	7,265	5,591	39,539	52,395
<i>Total Expenditures</i>	<u>5,245,259</u>	<u>1,281,714</u>	<u>5,279,214</u>	<u>11,806,187</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>9,602</u>	<u>118,691</u>	<u>(687,147)</u>	<u>(558,854)</u>
Other Financing Sources and Uses				
Transfers In	0	0	971,320	971,320
Proceeds of Loans	0	0	20,100	20,100
Inception of Capital Lease	44,102	0	0	44,102
Transfers Out	(368,469)	(187,964)	(414,887)	(971,320)
<i>Total Other Financing Sources and Uses</i>	<u>(324,367)</u>	<u>(187,964)</u>	<u>576,533</u>	<u>64,202</u>
<i>Net Change in Fund Balance</i>	(314,765)	(69,273)	(110,614)	(494,652)
<i>Fund Balance at Beginning of Year</i>	963,327	148,547	3,147,377	4,259,251
(Decrease) in Reserve for Inventory	0	0	(2,880)	(2,880)
<i>Fund Balance at End of Year</i>	<u>\$ 648,562</u>	<u>\$ 79,274</u>	<u>\$ 3,033,883</u>	<u>\$ 3,761,719</u>

See accompanying notes to the basic financial statements.

City of Cambridge
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2003*

Net Change in Fund Balances - Total Governmental Funds \$ (494,652)

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

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

Capital Asset Additions	517,002	
Current Year Depreciation	<u>(362,147)</u>	
Total		154,855

Governmental funds only report the disposal of fixed assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (34,387)

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

Delinquent Property Taxes	58,444	
Income Tax	214,077	
Intergovernmental	(309,822)	
Miscellaneous	<u>15,858</u>	
Total		(21,443)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 298,496

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (965)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities. (64,202)

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

Compensated Absences	23,443	
Pension Obligations	(34,691)	
Change in Inventory	<u>(2,880)</u>	
Total		(14,128)

The internal service funds used by management to charge the cost of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 97,947

Change in Net Assets of Governmental Activities \$ (78,479)

See accompanying notes to the basic financial statements.

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

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Property Taxes	\$ 268,575	\$ 268,575	\$ 305,920	\$ 37,345
Income Taxes	2,965,000	3,045,000	2,845,340	(199,660)
Charges for Services	0	0	41	41
Licenses and Permits	133,500	133,500	134,069	569
Fines and Forfeitures	650,000	650,000	575,621	(74,379)
Intergovernmental	1,042,013	1,042,013	736,844	(305,169)
Interest	200,000	200,000	184,089	(15,911)
Rent	11,000	11,000	13,601	2,601
Other	165,500	209,772	474,411	264,639
<i>Total Revenues</i>	<u>5,435,588</u>	<u>5,559,860</u>	<u>5,269,936</u>	<u>(289,924)</u>
Expenditures				
General Government	2,845,141	2,919,975	2,793,281	126,694
Security of Persons and Property	1,786,350	1,792,752	1,626,695	166,057
Lesiure Time Services	449,459	449,459	434,647	14,812
Community and Economic Development	144,722	153,222	150,948	2,274
Capital Outlay	47,000	14,519	14,519	0
Debt Service:				
Interest and Fiscal Charges	0	0	6,405	(6,405)
<i>Total Expenditures</i>	<u>5,272,672</u>	<u>5,329,927</u>	<u>5,026,495</u>	<u>303,432</u>
Excess of Revenues Over Expenditures	<u>162,916</u>	<u>229,933</u>	<u>243,441</u>	<u>13,508</u>
Other Financing Uses				
Transfers Out	(400,000)	(401,339)	(368,469)	32,870
Total Other Financing Uses	<u>(400,000)</u>	<u>(401,339)</u>	<u>(368,469)</u>	<u>32,870</u>
Net Change in Fund Balance	(237,084)	(171,406)	(125,028)	46,378
Fund Balance at Beginning of Year	227,179	227,179	227,179	0
Fund Balance (Deficit) at End of Year	<u>\$ (9,905)</u>	<u>\$ 55,773</u>	<u>\$ 102,151</u>	<u>\$ 46,378</u>

See accompanying notes to the basic financial statements.

City of Cambridge
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Fund
For the Year Ended December 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Property Taxes	\$ 1,011,943	\$ 1,011,943	\$ 1,133,662	\$ 121,719
Charges for Services	139,270	139,270	139,270	0
Intergovernmental	125,145	125,145	110,176	(14,969)
Other	<u>2,500</u>	<u>18,844</u>	<u>19,469</u>	<u>625</u>
<i>Total Revenues</i>	<u>1,278,858</u>	<u>1,295,202</u>	<u>1,402,577</u>	<u>107,375</u>
Expenditures				
Security of Persons and Property	<u>1,274,922</u>	<u>1,291,266</u>	<u>1,285,775</u>	<u>5,491</u>
<i>Total Expenditures</i>	<u>1,274,922</u>	<u>1,291,266</u>	<u>1,285,775</u>	<u>5,491</u>
Excess of Revenues Over Expenditures	<u>3,936</u>	<u>3,936</u>	<u>116,802</u>	<u>112,866</u>
Other Financing Uses				
Transfers Out	<u>(219,093)</u>	<u>(219,093)</u>	<u>(187,964)</u>	<u>31,129</u>
Total Other Financing Uses	<u>(219,093)</u>	<u>(219,093)</u>	<u>(187,964)</u>	<u>31,129</u>
Net Change in Fund Balance	(215,157)	(215,157)	(71,162)	143,995
Fund Balance at Beginning of Year	<u>230,512</u>	<u>230,512</u>	<u>230,512</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 15,355</u>	<u>\$ 15,355</u>	<u>\$ 159,350</u>	<u>\$ 143,995</u>

See accompanying notes to the basic financial statements.

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

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer Fund	Water Fund	Totals	
Assets				
<i>Current Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,609,505	\$ 1,506,642	\$ 4,116,147	\$ 0
Cash and Cash Equivalents in				
Segregated Accounts	91,309	0	91,309	0
Materials and Supplies Inventory	0	12,277	12,277	0
Accounts Receivable	345,227	340,755	685,982	0
Interfund Receivable	0	0	0	85,348
Prepaid Items	8,416	9,644	18,060	0
<i>Total Current Assets</i>	<u>3,054,457</u>	<u>1,869,318</u>	<u>4,923,775</u>	<u>85,348</u>
<i>Non-Current Assets</i>				
Restricted Equity in Pooled Cash and Cash Equivalents	0	517,745	517,745	0
Deferred Charge	3,765	65,939	69,704	0
Non-Depreciable Capital Assets	276,758	150,369	427,127	0
Depreciable Capital Assets, net	7,605,766	8,162,426	15,768,192	0
<i>Total Non-Current Assets</i>	<u>7,886,289</u>	<u>8,896,479</u>	<u>16,782,768</u>	<u>0</u>
<i>Total Assets</i>	<u>10,940,746</u>	<u>10,765,797</u>	<u>21,706,543</u>	<u>85,348</u>
Liabilities				
<i>Current Liabilities</i>				
Accounts Payable	47,240	32,776	80,016	0
Accrued Wages	27,640	30,319	57,959	0
Contracts Payable	7,562	0	7,562	0
Intergovernmental Payable	53,482	58,163	111,645	0
Accrued Interest Payable	489	10,745	11,234	0
Interfund Payable	11,381	10,168	21,549	0
Due to Others	0	114,473	114,473	0
Claims Payable	0	0	0	85,348
<i>Total Current Liabilities</i>	<u>147,794</u>	<u>256,644</u>	<u>404,438</u>	<u>85,348</u>
<i>Long-Term Liabilities:</i>				
Due Within One Year	295,928	325,049	620,977	0
Due in More Than One Year	2,350,419	5,549,696	7,900,115	0
<i>Total Long-Term Liabilities</i>	<u>2,646,347</u>	<u>5,874,745</u>	<u>8,521,092</u>	<u>0</u>
<i>Total Liabilities</i>	<u>2,794,141</u>	<u>6,131,389</u>	<u>8,925,530</u>	<u>85,348</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	5,330,086	2,721,535	8,051,621	0
Restricted for Debt Service	0	398,825	398,825	0
Restricted for Other Purposes	0	118,920	118,920	0
Unrestricted	2,816,519	1,395,128	4,211,647	0
<i>Total Net Assets</i>	<u>\$ 8,146,605</u>	<u>\$ 4,634,408</u>	<u>\$ 12,781,013</u>	<u>\$ 0</u>

See accompanying notes to the basic financial statements.

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

	Business-Type Activities			Governmental Activities - Internal Service Funds
	Sewer Fund	Water Fund	Totals	
Operating Revenue				
Charges for Services	\$ 2,069,978	\$ 2,260,582	\$ 4,330,560	\$ 1,276,117
Charges for Services - Mortgage Revenue Bonds	0	295,353	295,353	0
Other	25,616	0	25,616	95,012
<i>Total Operating Revenues</i>	2,095,594	2,555,935	4,651,529	1,371,129
Operating Expenses				
Personal Services	820,395	742,740	1,563,135	0
Contractual Services	450,610	468,825	919,435	258,424
Materials and Supplies	580,813	645,173	1,225,986	0
Claims	0	0	0	997,086
Depreciation	217,313	375,480	592,793	0
Other	2,023	67,519	69,542	0
<i>Total Operating Expenses</i>	2,071,154	2,299,737	4,370,891	1,255,510
<i>Operating Income</i>	24,440	256,198	280,638	115,619
Non-Operating Revenues (Expenses)				
Interest	5	2,079	2,084	181
Interest and Fiscal Charges	(128,219)	(280,746)	(408,965)	0
<i>Total Non-Operating Revenues (Expenses)</i>	(128,214)	(278,667)	(406,881)	181
<i>Change in Net Assets</i>	(103,774)	(22,469)	(126,243)	115,800
<i>Net Assets at Beginning of Year</i>	8,250,379	4,656,877	12,907,256	(115,800)
<i>Net Assets at End of Year</i>	\$ 8,146,605	\$ 4,634,408	\$ 12,781,013	\$ 0

See accompanying notes to the basic financial statements.

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

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from Operating Activities				
Cash Received from Customers	\$ 2,053,347	\$ 2,537,509	\$ 4,590,856	\$ 1,190,769
Other Operating Receipts	25,616	0	25,616	95,978
Cash Payments to Suppliers for Goods and Services	(661,938)	(651,321)	(1,313,259)	0
Cash Payments to Employees	(778,906)	(701,676)	(1,480,582)	0
Cash Payments for Contractual Services	(422,082)	(462,932)	(885,014)	(258,424)
Other Operating Expenses	(1,857)	(67,335)	(69,192)	0
Claims Paid	0	0	0	(1,041,738)
<i>Net Cash Provided by (Used for) Operating Activities</i>	214,180	654,245	868,425	(13,415)
Cash Flows from Capital and Related Financing Activities				
Proceeds from Loans	211,291	0	211,291	0
Acquisition of Capital Assets	(211,720)	(51,670)	(263,390)	0
Principal Payments on Debt	(274,003)	(313,654)	(587,657)	0
Interest Payments	(127,738)	(275,117)	(402,855)	0
<i>Net Cash (Used for) Capital and Related Financing Activities</i>	(402,170)	(640,441)	(1,042,611)	0
Cash Flows from Investing Activities				
Interest	5	1,213	1,218	181
<i>Net Cash Provided by Investing Activities</i>	5	1,213	1,218	181
<i>Net Increase in Cash and Cash Equivalents</i>	(187,985)	15,017	(172,968)	(13,234)
<i>Cash and Cash Equivalents at Beginning of Year</i>	2,888,799	2,009,370	4,898,169	13,234
<i>Cash and Cash Equivalents at End of Year</i>	\$ 2,700,814	\$ 2,024,387	\$ 4,725,201	\$ 0

(continued)

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

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Totals	
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities				
Operating Income	\$ 24,440	\$ 256,198	280,638	\$ 115,619
Adjustments:				
Depreciation	217,313	375,480	592,793	0
(Increase) Decrease in Assets:				
Accounts Receivable	(16,465)	(18,242)	(34,707)	966
Prepaid Items	(175)	(176)	(351)	0
Materials and Supplies Inventory	750	(5,119)	(4,369)	0
Interfund Receivable	7,255	0	7,255	(85,348)
Increase (Decrease) in Liabilities:				
Accounts Payable	(60,265)	5,040	(55,225)	0
Interfund Payable	11,381	10,168	21,549	0
Accrued Wages	1,856	2,243	4,099	0
Compensated Absences Payable	8,631	6,042	14,673	0
Claims Payable	0	0	0	(44,652)
Intergovernmental Payable	19,459	22,611	42,070	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$ 214,180</u>	<u>\$ 654,245</u>	<u>\$ 868,425</u>	<u>\$ (13,415)</u>

See accompanying notes to the basic financial statements.

City of Cambridge
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Private Purpose Trust	Agency Fund
Assets		
Cash and Cash Equivalents in Segregated Accounts	\$ 60,697	\$ 203,172
Accounts Receivable	0	4,681
<i>Total Assets</i>	60,697	207,853
Liabilities		
Due to Others		207,853
<i>Total Liabilities</i>		\$ 207,853
Net Assets		
Held in Trust for Private Purposes	60,697	
<i>Total Net Assets</i>	\$ 60,697	

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust
Additions	
Interest	\$ 409
<i>Total Additions</i>	409
Deductions	
Miscellaneous	111
<i>Total Deductions</i>	111
<i>Change in Net Assets</i>	298
<i>Net Assets Beginning of Year</i>	60,399
<i>Net Assets End of Year</i>	\$ 60,697

See accompanying notes to the basic financial statements.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 1 – REPORTING ENTITY

The City of Cambridge, Ohio (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the Constitution and laws of the State of Ohio. The City was incorporated in 1837 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, "*The Financial Reporting Entity*" and No. 39, "*Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14,*" in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance and other governmental services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system which are reported as enterprise funds.

Related Organizations

Guernsey County Convention Facilities Authority – The Convention Facilities Authority (CFA) was created pursuant to state statutes for the purpose of constructing, equipping, and operating a convention facility in Guernsey County. The Authority operates under the direction of an eleven member appointed board of directors. This board consists of six members appointed by Guernsey County, three members appointed by the Mayor of Cambridge, and two members appointed by the remaining municipal corporations located within the County. The City's accountability does not extend beyond making the appointments.

Cambridge Metropolitan Housing Authority – The Cambridge Metropolitan Housing Authority is a nonprofit organization established to provide adequate public housing for low income individuals and was created pursuant to state statutes. The Authority is operated by a five member board. Two members are appointed by the Mayor of Cambridge, one member is appointed by the common pleas court judge, and one member is appointed by the Guernsey County Commissioners. The City is not financially accountable for the Authority.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 1 – REPORTING ENTITY (Continued)

Guernsey County Airport Authority – The Guernsey County Airport Authority was created to provide for the orderly development of aviation facilities in the region. The Authority is governed by a five member board. The initial board consisted of three members appointed by the City of Cambridge and two members appointed by the Board of County Commissioners. The City of Cambridge provides 90% of the funds received by the Authority. However, the City is not financially accountable for the Authority.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net 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 activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fire Special Revenue Fund. The fire fund is used to account for the property taxes levied in the City for the operation of its fire department.

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

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the City's proprietary fund type:

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 sewer and water funds are the City's major enterprise funds.

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

Water Fund – The water fund accounts for the provision of water service to the residents and commercial users located within the City.

Internal Service Fund The internal service fund accounts for the financing of service provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of 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 presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of 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 fund activities. Private purpose trust funds are reported using the economic resources measurement focus.

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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements, and donations is recognized in the fiscal 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 fiscal 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

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

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Pooled Cash and Cash Equivalents

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

Investments are reported at fair value which is based on quoted market prices, with the exception of nonparticipating certificates of deposit and repurchase agreements, which are reported at cost.

During 2003, investments were limited to overnight repurchase agreements and interest in STAROhio, (the State Treasury Asset Reserve of Ohio), and Money Market.

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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amounted to \$185,615, which includes \$178,437 assigned from other City funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing 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. See Note 6, Deposits and Investments.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies 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. Inventory consists of expendable supplies.

H. 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 values as of the date received. The City maintains a capitalization threshold of \$1,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets, except for land and construction-in-progress, are depreciated. 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	10 - 50 Years	15 - 25 Years
Improvements Other Than Buildings	15 - 30 Years	25 - 65 Years
Equipment and Machinery	5 - 20 Years	5 - 25 Years
Furniture and Fixtures	5 - 20 Years	5 Years
Vehicles	4 - 10 Years	3 - 10 Years
Water/Sewer Lines	N/A	65 Years

City management chose not to record general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

On fund financial statements, long-term interfund loans reported as "due to/from other funds," are equally offset by a fund balance reserve account which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and the employees' wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy. Employees with five years of service with the City are deemed vested.

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

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, 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 fiscal year. Bonds, capital leases, and long-term loans are recognized as a liability on the government fund financial statements when due. The unmatured portion of these obligations should be reported as general long-term liabilities segregated between amounts due in one year and amounts due in more than one year.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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 borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

M. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, debt service and loans receivable.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

O. Contributions of Capital

Contributions of capital in 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 for grants or outside contributions of resources restricted to capital acquisition and construction.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

R. 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.

S. Budgetary Data

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the final appropriations were enacted by Council.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts 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.

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS

Changes in Accounting Principles For 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", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38.

GASB Statement No. 34 creates new basic financial statements for reporting on 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.

The government-wide financial statements split the City's programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in GASB Statement No. 34.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS (Continued)

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. The City restated the fund liability of compensated absences, reported as "compensated absences", which had not matured during fiscal year 2003 and has reported prepaid amounts for services not yet consumed.

Restatement of Fund Balance The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects 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 the governmental activities is also presented.

	General	Fire Fund	Aggregate Nonmajor	Total
Fund Balances, 12/31/02	<u>\$ 963,327</u>	<u>\$ 148,547</u>	<u>\$ 3,147,377</u>	\$ 4,259,251
GASB 34 Adjustments:				
Capital Assets				5,627,594
Compensated Absences				(691,063)
Internal Service Fund				(97,947)
Pension Obligations				(119,698)
Long-Term (Deferred) Assets				1,914,458
Long-Term Liabilities				<u>(1,308,837)</u>
 Governmental Activities Net Assets, 12/31/02				 <u>\$ 9,583,758</u>

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS (Continued)

Prior Period Adjustments In 2003, the City modified the useful lives of certain capital assets along with increasing their capitalization threshold from \$500 to \$1,000. As a result, the capital assets in the sewer fund increased by \$86,307 and decreased in the water fund by \$88,731. In addition, the special assessments bonds payable were reclassified from business-type activities to governmental activities. The result of this reclassification decreased debt in the sewer and water funds by \$128,611 and \$45,025 respectively.

To correct these, the beginning net asset balances have been restated as follows:

	Previously Stated Balance <u>12/31/2002</u>	<u>Adjustments</u>	Restated Balance <u>1/1/2003</u>
Business-Type Activities:			
Sewer Fund	\$ 8,035,461	\$ 214,918	\$ 8,250,379
Water Fund	<u>4,700,583</u>	<u>(43,706)</u>	<u>4,656,877</u>
Total Business-Type Activities	<u>\$ 12,736,044</u>	<u>\$ 171,212</u>	<u>\$ 12,907,256</u>

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the fire major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditure/expenses (budget) rather than as a reservation of fund balance (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the fire major special revenue fund.

Net Change in Fund Balance

	General	Fire
GAAP Basis	\$ (314,765)	\$ (69,273)
Revenue accruals	(29,027)	2,172
Expenditure accruals	247,691	(2,949)
Encumbrances	(28,927)	(1,112)
Budget Basis	\$ (125,028)	\$ (71,162)

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 5 – FUND DEFICITS

Fund balances at December 31, 2003 included the following individual fund deficits:

	<u>Deficit</u>
Non-Major Funds:	
Street Improvement	\$ 276,948
2004 VOCA Grant	\$ 484

The deficits in those funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required, not when accruals occur.

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's Investment Pool (STAROhio).

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

The following information classifies as deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits. At year-end, the carrying amount of the City's deposits was \$8,169,454, and the bank balance was \$8,417,374. Of the bank balance:

1. \$240,117 was covered by federal depository insurance.
2. \$8,177,257 was uninsured and uncollateralized. Although the collateral for the securities was held by the pledging financial institution's trust department in the City's name and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments. GASB Statement No. 3, "Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements," requires the City to categorize investments to give an indication of the level of custodial credit 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 which 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 classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statements No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments	
GASB Statement No. 9	\$ 8,129,337	\$ 40,117	
Certificates of Deposits with maturity of greater than three months	40,117	(40,117)	
GASB Statement No. 3	\$ 8,169,454	\$ 0	

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 7 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date, and were collected in 2003. Assessed values for real property are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2003 attached as a lien on December 31, 2002, were levied after October 1, 2002 and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 88% of true value. 2003 tangible personal property taxes are levied after October 1, 2002, on the value listed as of December 31, 2002 and are collected in 2003. Tangible personal property assessments are 25% of true value.

The full tax rate for all City operations for the year ended December 31, 2003 was \$13.10 per \$1,000 of assessed value. The assessed value upon which the 2003 tax receipts were based was \$136,446,960. This amount constitutes \$101,736,760 in real property assessed value, \$6,740,760 in public utility assessed value and \$27,969,440 tangible personal property assessed value. Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.40% (14.00 mills) of assessed value.

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

Tangible personal property taxes paid by multi-county taxpayers are due October 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 by October 20.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 7 – TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which became measurable as of December 31, 2003. Total property tax collections for the next fiscal year are measurable amounts, however, since these tax collections will not be received during the available period nor are they intended to finance 2003 operations, the receivable is offset by a credit to deferred revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Income Tax

The City levies a tax of 1.5% on all salaries, wages, commissions and other compensation, and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee's 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.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003 consisted of taxes, accounts receivable, loans, interest and intergovernmental receivables arising from shared revenues.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 9 – OPERATING TRANSFERS

Following is a summary of operating transfers in and out for all funds for 2003:

Fund	Transfer In	Transfer Out
General Fund	\$ 0	\$ 368,469
Fire Protection Fund	0	187,964
Non-Major Governmental Funds:		
Street	14,887	0
Tree Fund	5,000	0
Municipal Airport Fund	120,600	0
Fire Pension Fund	187,964	0
Police Pension Fund	177,869	0
FEMA	0	14,887
Cemetery Fund	465,000	0
Northwood Cemetery Maintenance Fund	0	400,000
Total Non-Major Governmental Funds	971,320	414,887
Total All Funds	\$ 971,320	\$ 971,320

The \$400,000 transfer from the Northwood Cemetery Maintenance Fund to the Cemetery Fund was to construct a mausoleum.

The transfer to the Fire Pension Fund from the Fire Fund in the amount of \$187,964 along with the \$177,869 transfer to the Police Pension Fund from the General Fund were for purposes of pension payments to the Ohio Police and Fire Pension Fund.

The remaining transfers from the General Fund to the various other non-major funds were to cover operating costs.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 10 – CAPITAL ASSETS

A summary of changes in capital assets during 2003 follows:

	<u>Restated Balance 12/31/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2003</u>
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,471,789	\$ 75,000	\$ (34,387)	\$ 1,512,402
<i>Total Capital Assets Not Being Depreciated</i>	1,471,789	75,000	(34,387)	1,512,402
<i>Capital Assets, Being Depreciated:</i>				
Land Improvements	74,961	0	0	74,961
Buildings	2,297,779	377,949	0	2,675,728
Improvements Other Than Buildings	1,595,938	0	0	1,595,938
Machinery and equipment	3,027,609	64,053	(202,031)	2,889,631
Furniture and fixtures	75,629	0	0	75,629
Vehicles	604,869	0	(26,091)	578,778
<i>Total Capital Assets, Being Depreciated</i>	<u>7,676,785</u>	<u>442,002</u>	<u>(228,122)</u>	<u>7,890,665</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	28,460	4,082	0	32,542
Buildings	653,420	55,563	0	708,983
Improvements Other Than Buildings	600,344	71,579	0	671,923
Machinery and equipment	1,877,979	150,521	(202,031)	1,826,469
Furniture and fixtures	31,944	4,872	0	36,816
Vehicles	328,833	75,530	(26,091)	378,272
<i>Total Accumulated Depreciation</i>	<u>3,520,980</u>	<u>362,147</u> *	<u>(228,122)</u>	<u>3,655,005</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>4,155,805</u>	<u>79,855</u>	<u>0</u>	<u>4,235,660</u>
<i>Total Governmental Capital Assets, Net</i>	<u>\$ 5,627,594</u>	<u>\$ 154,855</u>	<u>\$ (34,387)</u>	<u>\$ 5,748,062</u>

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 45,380
Leisure Time Services	137,495
Security of Persons and Property	113,573
Transportation	48,285
Community and Economic Development	812
Public Health	<u>16,602</u>
Total	<u>\$ 362,147</u>

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 10 – CAPITAL ASSETS (Continued)

	Restated Balance 12/31/2002	Additions	Deletions	Balance 12/31/2003
Business-Type Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 216,900	\$ 0	\$ 0	\$ 216,900
Construction in progress	0	210,227	0	210,227
<i>Total Capital Assets Not Being Depreciated</i>	216,900	210,227	0	427,127
 <i>Capital Assets, Being Depreciated:</i>				
Buildings	9,243,420	0	0	9,243,420
Improvements other than buildings	8,528,188	0	0	8,528,188
Machinery and equipment	859,079	53,163	(43,933)	868,309
Furniture and fixtures	60,068	0	0	60,068
Vehicles	376,510	0	0	376,510
Water Lines	2,702,072	0	0	2,702,072
Sewer Lines	4,252,831	0	0	4,252,831
<i>Total Capital Assets, Being Depreciated</i>	26,022,168	53,163	(43,933)	26,031,398
 <i>Less Accumulated Depreciation:</i>				
Buildings	3,595,507	283,514	0	3,879,021
Improvements other than buildings	1,999,581	131,810	0	2,131,391
Machinery and equipment	609,288	42,727	(43,933)	608,082
Furniture and fixtures	33,230	9,492	0	42,722
Vehicles	257,215	36,170	0	293,385
Water Lines	1,176,922	35,928	0	1,212,850
Sewer Lines	2,042,603	53,152	0	2,095,755
<i>Total Accumulated Depreciation</i>	9,714,346	592,793	(43,933)	10,263,206
<i>Total Capital Assets Being Depreciated, Net</i>	16,307,822	(539,630)	0	15,768,192
 <i>Total Business-Type Capital Assets, Net</i>	 \$ 16,524,722	 \$ (329,403)	 \$ 0	 \$ 16,195,319

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

City employees, other than non-administrative, full-time uniformed police officers and firemen participate 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 the OPERS, 277 East Town Street, Columbus, Ohio 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% of their annual covered salaries. The City's contribution rate for pension benefits for 2003 was 8.55% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to OPERS for the years ended December 31, 2003, 2002 and 2001 were \$451,380, \$484,754 and \$456,761, respectively. The full amount has been contributed for 2002 and 2001. 91.72% has been contributed for 2003 with the remainder being reported as a fund liability.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial 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.

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 11.75% for police and 16.25% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F Fund for the years ending December 31, 2003, 2002 and 2001 were \$203,672, \$201,380 and \$189,416 for police and \$217,286, \$210,600 and \$213,785 for firefighters, respectively, which were equal to the required contributions for each year.

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for post-employment health care coverage. The health care coverage provided by the retirement system is considered as Other Post-employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional and combined plans is set aside for the funding of post retirement health care based on authority granted by state statute. The 2003 local government employer contribution rate was 13.55% of covered payroll; 5.00% 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%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

The number of active contributing participants was 364,881. Actual employer contributions for 2003 which were used to fund post employment benefits were \$80,895. 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 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 received 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 on a full-time or two-thirds basis.

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 is 19.5% of covered payroll of which 7.75% 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.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

The portion of the 2003 covered payroll that was used to fund postretirement health care benefits was \$80,947 representing 7.75% of covered payroll for police and \$70,165 representing 7.75% of covered payroll for firefighters. The OP&F's total health care expenses 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 - COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 4.6 hours for each completed eighty (80) hours in active pay status, with the exception of the fire department employees. All fire department employees working 24 hour crew shifts accumulate 14 hours of sick leave per pay period. Upon retirement from the City, administrative personnel and fire department employees with five (5) years of service or more with the City receive a lump sum settlement for unused sick leave at the rate of one-half (1/2) of all unused sick leave or a maximum of 60 days or 480 hours. In addition, any police and fire department employee who retires or is laid-off after ten (10) years of service, is eligible to receive 10% of all sick time in excess of 960 hours. All AFSCMA and police department employees are paid for one half (1/2) of the value of earned, but unused sick leave credit, at the time of retirement from active service with the City. The payment is based upon a maximum of sixty (60) days at the employee's hourly rate of compensation at the time of retirement.

City employees earn vacation at various rates depending on length of service. The City requires each employee to work one full year prior to permitting the use of vacation leave. Consequently, all employees' vacation leave earned is carried forward to the succeeding calendar year and only lost if not used by the end of that calendar year. Upon separation, an employee is paid for unused vacation earned in the year prior to their retirement plus any current year vacation earned through their retirement date. As of December 31, 2003 the liability for unpaid compensated absences was \$869,186.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during the year ended December 31, 2003 consisted of the following:

Maturity Year	Interest Rate	Principal Balance 1/1/2003	Additions	Reductions	Principal Balance 12/31/2003	Due in One Year
Business-Type Activities Long-Term Debt:						
Mortgage Revenue Bond:						
2015	Waterworks Improvement 4.60-5.50%	\$ 2,642,828	\$ 5,207	\$ (150,000)	\$ 2,498,035	\$ 155,000
	Total Mortgage Revenue Bonds	2,642,828	5,207	(150,000)	2,498,035	155,000
OWDA Loans:						
2011	Water Pollution Improvement 5.00%	2,622,416	0	(274,003)	2,348,413	287,874
2019	Water Pollution Improvement 4.04%	3,250,207	0	(154,432)	3,095,775	160,735
2014	Digester and Sewer Lining Project 3.50%	0	211,291	0	211,291	0
	Total OWDA loans payable	5,872,623	211,291	(428,435)	5,655,479	448,609
OPWC Loan:						
2022	Water Treatment Plant Filter Rehabilitation 0.00%	175,234	0	(9,222)	166,012	9,223
	Total OPWC Loan	175,234	0	(9,222)	166,012	9,223
Total Business-Type Activities Long-Term Debt		8,690,685	216,498	(587,657)	8,319,526	612,832
Other Business-Type Long-Term Obligations:						
	Compensated Absences	186,893	14,673	0	201,566	8,145
Total Business-Type Activities Long-Term Debt and Other Long-Term Obligations		\$ 8,877,578	\$ 231,171	\$ (587,657)	\$ 8,521,092	\$ 620,977

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

Maturity Year		Interest Rate	Principal Balance 1/1/2003	Additions	Reductions	Principal Balance 12/31/2003	Due in One Year
Governmental Activities Long-Term Debt:							
General Obligation Bonds:							
2004	Recreational Facility Bonds	5.30%	\$ 350,000	\$ 0	\$ (170,000)	\$ 180,000	\$ 180,000
Special Assessment Bonds:							
2017	Waterline Improvement	4.80%	45,025	43	(2,593)	42,475	2,593
2017	Sewerline Improvement	4.80%	128,611	123	(7,407)	121,327	7,407
	Total Special Assessment Bonds		173,636	166	(10,000)	163,802	10,000
2005	John Deere Mower Loan	2.55%	0	20,100	(2,456)	17,644	9,984
Ohio Public Works Commission Loans:							
2004	Street Paving '93B	0.00%	4,620	0	(3,080)	1,540	1,540
2004	Various Street Resurfacing	0.00%	1,736	0	(1,736)	0	0
2004	Street Project '98	0.00%	1,998	0	(1,998)	0	0
2005	Street Project '94	0.00%	3,573	0	(1,430)	2,143	1,428
2006	Street Project '95	0.00%	8,382	0	(2,794)	5,588	2,794
2008	Street Project '98	0.00%	8,593	0	(1,718)	6,875	1,719
2009	Street Project '99	0.00%	6,633	0	(1,020)	5,613	1,021
	Total OPWC Loans		35,535	0	(13,776)	21,759	8,502
Total Governmental Activities							
	Long-Term Debt	0.00%	559,171	20,266	(196,232)	383,205	208,486
Other Long-Term Obligations:							
	Compensated absences		691,063	0	(23,443)	667,620	1,057
2007	Capital leases	5.5%-8.90%	193,371	44,102	(94,068)	143,405	94,057
	Accrued pension liability		556,295	0	(8,196)	548,099	8,518
	Total other long-term obligations		1,440,729	44,102	(125,707)	1,359,124	103,632
Total Governmental Activities Long-Term Debt and Other Long-Term Debt Obligations							
			\$ 1,999,900	\$ 64,368	\$ (321,939)	\$ 1,742,329	\$ 312,118

The principal amount of the City's special assessment debt outstanding at December 31, 2003, \$163,802, is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2003 follows:

Years	General Obligation Bonds		Mortgage Revenue Bond		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 180,000	\$ 10,080	\$ 150,112	\$ 138,350	\$ 448,609	\$ 237,328
2005	0	0	160,451	130,213	469,741	216,197
2006	0	0	165,801	121,550	491,880	194,056
2007	0	0	176,172	112,200	515,072	170,865
2008	0	0	186,563	102,300	539,368	146,568
2009-2013	0	0	1,114,512	342,100	1,820,786	403,679
2014-2018	0	0	544,424	45,375	1,158,732	120,151
2019-2023	0	0	0	0	0	0
2024-2028	0	0	0	0	0	0
2029-2033	0	0	0	0	0	0
2034-2035	0	0	0	0	0	0
Totals	\$ 180,000	\$ 10,080	\$ 2,498,035	\$ 992,088	\$ 5,444,188	\$ 1,488,844

Years	OPWC Loans		Police/Fire Accrued Pension Liability		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 17,725	\$ 0	\$ 8,518	\$ 23,234	\$ 94,057	\$ 8,271
2005	15,471	0	8,885	22,868	25,822	2,767
2006	11,962	0	9,267	22,486	11,448	1,294
2007	11,962	0	9,666	22,088	12,078	664
2008	10,244	0	10,081	21,671	0	0
2009-2013	46,624	0	57,296	101,470	0	0
2014-2018	46,114	0	70,719	88,044	0	0
2019-2023	27,669	0	87,289	71,472	0	0
2024-2028	0	0	107,744	51,019	0	0
2029-2033	0	0	132,992	25,769	0	0
2034-2035	0	0	45,642	1,959	0	0
Totals	\$ 187,771	\$ 0	\$ 548,099	\$ 452,080	\$ 143,405	\$ 12,996

Years	Special Assessment Bonds		John Deere Mower Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 9,843	\$ 9,320	\$ 9,984	\$ 339	\$ 918,848	\$ 426,922
2005	9,853	8,810	7,660	83	697,883	380,938
2006	9,864	8,295	0	0	700,222	347,681
2007	9,873	7,775	0	0	734,823	313,592
2008	9,884	7,250	0	0	756,140	277,789
2009-2013	54,575	27,550	0	0	3,093,793	874,799
2014-2018	59,910	8,700	0	0	1,879,899	262,270
2019-2023	0	0	0	0	114,958	71,472
2024-2028	0	0	0	0	107,744	51,019
2029-2033	0	0	0	0	132,992	25,769
2034-2035	0	0	0	0	45,642	1,959
Totals	\$ 163,802	\$ 77,700	\$ 17,644	\$ 422	\$ 9,182,944	\$ 3,034,210

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 14 - LONG-TERM OBLIGATIONS (Continued)

The City's liability for past service costs related to the Police and Firemen's Pension Fund at December 31, 2003 was \$1,000,179 in principal and interest payments through the year 2035. Only the principal amount of \$548,099 is included in the Governmental Activities as a long-term liability.

During 2003, the City entered into a loan agreement with the Ohio Water Development Authority (OWDA) for a digester and sewer lining project. The total amount authorized for the loan was \$876,813 and as of December 31, 2003, the City had drawn down \$211,291. The City will begin repaying the loan when the project is complete and they will not receive an amortization schedule until the loan is completely drawn down.

The City entered into a loan agreement during 2003 with National City bank for the purchase of two John Deere mowers. The loan will be repaid from the park user fund with revenues generated from charges for services.

Revenue Bond Covenants

Provisions of the revenue bond require the City to do the following:

1. Make monthly deposits to Fifth Third Bank equal to 1/12 of annual principal and interest amounts minus investment earnings on the deposits.
2. Deposit monthly \$2,500 into a City-held Water Replacement and Improvement Account until the balance in the account totals \$300,000. Moneys may be spent from the account for replacements and improvements to the water system at any time. As long as the balance is less than \$300,000, monthly deposits will be made.
3. Annually the City will review the previous year's receipts and expenditures in the water fund. In any year that receipts are not sufficient after deducting operating and maintenance expenses to equal 110% of debt service, an outside consultant must be hired to review rates and the City must then act upon his recommendations within 60 days of the receipt of those recommendations.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 15 – CAPITAL LEASE

The City is obligated under leases for cemetery department mowers and gator vehicle, a street department Dura patcher, backhoe and air compressor, a fire rescue vehicle, and two police cruisers. The leases are accounted for as capital leases. The cost of the equipment obtained under capital lease and the related liability is included in the statement of net assets.

The following is a schedule of the future minimum lease payments under capital lease, together with the net present value of the minimum lease payments as of December 31, 2003:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2004	\$102,328
2005	28,589
2006	12,742
2007	<u>12,742</u>
Minimum lease payments	156,401
Less: amount representing interest at the City's incremental borrowing rate of interest	<u>(12,996)</u>
Present value of minimum lease payments	<u>\$143,405</u>

NOTE 16 – SHORT-TERM DEBT

The City reissued a bond anticipation note in the amount of \$300,000 during 2003 for the purpose of paying the cost of certain street and drainage improvements. The note liability is reflected in the Street Improvement Fund (Special Revenue Fund Type). This note is backed by the full faith and the credit of the City.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 17 – INSURANCE AND RISK MANAGEMENT

Self Insurance

The City maintains a self-funded health insurance program with claims processed by administrators on behalf of the City. A separate Self-Insurance Fund (an internal service fund) was created in 1989 to account for and finance the health insurance program. As an integral part of the health insurance program, a reinsurance policy has been purchased which covers claims in excess of \$50,000 per individual per year up to a maximum of \$1,000,000 per individual per lifetime. Settled claims have not exceeded the commercial coverage limits in any of the past three fiscal years.

All funds of the City from which employee salaries are paid participate in the health insurance program and make payments to the Self-Insurance Fund. Total contributions to the program during the year were \$1,195,450. The claims liability of \$85,348 reported in the Self-Insurance Fund at December 31, 2003 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amount in fiscal 2002 and 2003 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payable</u>	<u>Balance at Fiscal Year End</u>
2002	\$ 140,761	\$ 711,409	\$ (722,170)	\$ 130,000
2003	\$ 130,000	\$ 680,743	\$ (737,335)	\$ 73,405

Risk Pool Membership

The City is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; employee injuries, and natural disasters. To address these various risks, the City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles. There was no reduction in insurance coverage from coverage in the prior year. Also, insurance was sufficient to cover settlements in 2001, 2002 and 2003.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 17 – INSURANCE AND RISK MANAGEMENT (Continued)

Casualty Insurance

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporations.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Insurance

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

<u>Casualty Coverage</u>	<u>2003</u>
Assets	\$ 25,288,098
Liabilities	<u>(12,872,985)</u>
Retained Earnings	<u>\$ 12,415,113</u>

<u>Property Coverage</u>	<u>2003</u>
Assets	\$ 3,158,813
Liabilities	<u>(792,061)</u>
Retained Earnings	<u>\$ 2,366,752</u>

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

CITY OF CAMBRIDGE, OHIO
Notes to the Basic Financial Statements
DECEMBER 31, 2003

NOTE 18 - JOINTLY GOVERNED ORGANIZATION

The City is associated with the Southeastern Ohio Narcotics Team (S.E.N.T.). S.E.N.T. is a multi-jurisdictional drug task force with the primary goal of combating major narcotic traffickers in Belmont, Carroll, Guernsey, Harrison, Monroe, and Tuscarawas Counties. S.E.N.T. is jointly governed among the participating counties and cities. A grant is received from the State of Ohio of which the participating entities must match 25%. Of the 32 board members, the City appoints two. Each member's control over the operation of S.E.N.T. is limited to its representation on the board. In 2003 the City contributed \$3,545 to S.E.N.T., which represents 7% of total contributions.

NOTE 19 – CONDUIT DEBT OBLIGATIONS

From time to time, the City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. The City has no obligation for the repayment of this debt. The bonds are not bond indebtedness of the City and are therefore not reported on the City's balance sheet. At December 31, 2003, there were two series of Revenue Bonds outstanding, with a principal amount payable of \$27,690,000.

NOTE 20 – CONSTRUCTION COMMITMENTS

As of December 31, 2003 the City had the following commitments with respect to capital projects:

	Contractual Commitment	Expended	Balance 12/31/2003
Layton Excavating, Inc.	\$ 526,903	\$ 497,262	\$ 29,641
LJB Inc.	15,000	4,064	10,936
Totals	\$ 541,903	\$ 501,326	\$ 40,577

NOTE 21 - CONTINGENCIES

The City is party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

The City received financial assistance from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require 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 to the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2003.

**CITY OF CAMBRIDGE
GUERNSEY COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

FEDERAL GRANTOR/ Pass-Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed Through Ohio Attorney General's Office:</i>			
Crime Victim Assistance	2003VA-GENE-029	16.575	\$13,520
	2004VA-GENE-029	16.575	4,455
Total Crime Victims Assistance			17,975
<i>Passed Through Office of Criminal Justice Services:</i>			
Byrne Formula Grant Program	2003-DG-A01-7195	16.579	135,987
Total U.S. Department of Justice			153,962
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development:</i>			
Community Development Block Grants/State's Program:			
Small Cities Program	A-F-01-100-1	14.228	13,700
Small Cities Program	A-F-02-100-1	14.228	87,000
Downtown Revitalization Program	A-T-00-100-1	14.228	343,310
CHIP Grant	A-P-00-100-1	14.228	108,876
Total Community Development Block Grant/State's Program			552,886
HOME Investment Partnerships Program	N/A	14.239	196,431
Total U.S. Department of Housing and Urban Development			749,317
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Passed Through Ohio Department of Public Safety:</i>			
Hazard Mitigation Grant	FEMA-DR1453-059-10996	97.039	14,887
Total U.S. Department of Homeland Security			14,887
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation:</i>			
Highway Planning and Construction	TE21G034-000812	20.205	386,799
Total U.S. Department of Transportation			386,799
Total Federal Awards Expenditures			\$1,304,965

The Notes to the Schedule of Federal Awards Expenditures is an integral part of the Schedule.

**CITY OF CAMBRIDGE
GUERNSEY COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

NOTE A- SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City, passed through the Ohio 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, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2003, the gross amount of loans outstanding under this program was \$25,999 and is exhibited on the Statement of Net Assets as Loans Receivable.

NOTE C - MATCHING REQUIREMENTS

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

NOTE D – U.S. DEPARTMENT OF HOMELAND SECURITY FEDERAL AWARDS

The Federal Homeland Security Act of 2002 established the Department of Homeland Security (the Department) to consolidate functions of other Federal agencies related to homeland security. Effective January 24, 2003, the Department began to administer certain Federal awards the previously received from other Federal agencies. The accompanying Schedule of Federal Awards Expenditures reports all such 2003 award amounts under the Department's Catalog of Federal Domestic Assistance (CFDA) numbers. The purposes and compliance requirement of these programs has not changed. A comparison of the Federal agencies' and CFDA numbers the City reported in its 2002 Federal Award Expenditure Schedule compared with the Department's CFDA numbers reported in the 2003 Schedule follows:

Previous Federal Agency	CFDA No. Used in 2002	Homeland Security CFDA No. used for 2003
Federal Emergency Management Agency	83.548	97.039



Auditor of State Betty Montgomery

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

City of Cambridge
Guernsey County
1131 Steubenville Avenue
Cambridge, Ohio 43725

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Cambridge, Guernsey 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 February 10, 2005, wherein we noted the City's management has not recorded general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Therefore, because of the effects of this matter, we have issued an adverse opinion over the governmental activities of the City. We also noted the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement 34. 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 to determine our auditing procedures to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2003-002.

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 misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose the reportable conditions that are also considered to be material weaknesses. We consider item 2003-002 listed above to be a material weakness. In a separate letter to the City's management dated February 10, 2005, we reported other matters involving internal control over financial reporting.

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Compliance and Other Matters

As part of reasonably assuring whether the City's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2003-001. In a separate letter to the City's management dated February 10, 2005, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, 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.



Betty Montgomery
Auditor of State

February 10, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of Cambridge
Guernsey County
1131 Steubenville Avenue
Cambridge, Ohio 43725

To the City Council:

Compliance

We have audited the compliance of the City of Cambridge, Guernsey 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 its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

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

Internal Control Over Compliance

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

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

We intend this report for the information and use of the audit committee, 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.



Betty Montgomery
Auditor of State

February 10, 2005

**CITY OF CAMBRIDGE
GUERNSEY COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Adverse on Governmental Activities/Unqualified on Business-type Activities, each major fund, and aggregate remaining fund information
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(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 material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction Grant- C.F.D.A #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?	Yes

CITY OF CAMBRIDGE
GUERNSEY COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505
DECEMBER 31, 2003
(Continued)

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

FINDING NUMBER 2003-001

Finding For Adjustment/Noncompliance Citation

Ohio Rev. Code Section 5705.10 states money paid into any fund shall be used only for the purposes for which such fund is established. During 2003, the City paid health insurance premiums from funds with available cash rather than from the funds paying the related employee compensation.

During 2003, the City overpaid health insurance premiums from the Water Fund by \$133,678 and the Restricted Capital Improvement Fund by \$200,000. The City underpaid premiums from the General Fund by \$186,717, Street Fund by \$36,411, Fire Fund by \$8,554 and Sewer Fund by \$97,329.

In accordance with the foregoing facts, a finding for adjustment is hereby issued against, and in favor of, the following funds, in the following amounts:

Fund	Against	In Favor Of
General Fund	\$186,717	
Street Fund	\$36,411	
Fire Fund	\$8,554	
Sewer Fund	\$97,329	
Restricted Capital Improvement Fund		\$200,000
Water Fund		\$133,678
Insurance Fund	\$4,667	

In December, 2004, the City posted adjustments to its financial statements in the amount of \$36,411 from the Street Fund, \$8,554 from the Fire Fund, \$97,329 from the Sewer Fund, and \$4,667 from the Insurance Fund and reimbursed the Water Fund in the amount of \$133,678 and the Restricted Capital Improvement Fund in the amount of \$13,283. As of the date of this report, a balance of \$186,717 is still owed the Restricted Capital Improvement Fund from the General Fund, reported as an interfund receivable and payable, respectively.

FINDING NUMBER 2003-002

Material Weakness

Governmental Accounting Standards Board (GASB) Statement 34 requires capitalization of infrastructure associated with governmental activities and depreciation to be recorded on the infrastructure. GASB defines public infrastructure assets as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. GASB Statement 34, paragraph 337, states reporting of infrastructure is "essential to provide information for assessing financial position and changes in financial position, and for reporting the cost of programs and functions."

**CITY OF CAMBRIDGE
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 SECTION .505
DECEMBER 31, 2003
(Continued)**

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

**FINDING NUMBER 2003-002
(Continued)**

Material Weakness (Continued)

The effective date of implementing GASB Statement 34 for the City was fiscal year beginning after June 15, 2002, which required the City to report all infrastructure assets acquired, renovated, restored, or improved for fiscal year 2003 and thereafter. The City is also required to retroactively report infrastructure built or improved in the fiscal years ending after June 30, 1980, in the fiscal year beginning after June 15, 2006.

The City chose not to capitalize or record general infrastructure assets associated with governmental activities in the basic financial statements. This resulted in an adverse audit opinion for the governmental activities of the City.

We recommend the City develop and implement policies and procedures to record general infrastructure assets related to governmental activities and to report these infrastructure assets in the basic financial statements.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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**CITY OF CAMBRIDGE
GUERNSEY 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
MARCH 31, 2005**