



**CITY OF COSHOCTON
COSHOCTON COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

CITY OF COSHOCTON
COSHOCTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

City of Coshocton
Coshocton County
760 Chestnut Street
Coshocton, Ohio 43812

To the Members of City Council:

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, (the City) as of and for the year ended December 31, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, as of December 31, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund and the Street Fund, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, certain errors and omissions occurred resulting in the changes of previously recorded capital assets. To account for these error and omissions, the Water Enterprise Fund and Business-Type Activities Net Assets at January 1, 2004 were restated.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. 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.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 14, 2005

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of the City of Coshocton's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City decreased \$208,881. Net assets of governmental activities increased \$114,123 or 2.62% over 2003 and net assets of business-type activities decreased \$323,004 or 7.36% over 2003.
- General revenues accounted for \$4,964,804 of total governmental activities revenue. Program specific revenues accounted for \$1,631,834 or 24.74% of total governmental activities revenue.
- The City had \$6,482,515 in expenses related to governmental activities; \$1,631,834 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,850,681 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,964,804.
- The general fund had revenues of \$4,702,725 in 2004. This represents an increase of \$334,969 from 2003 revenues. The expenditures of the general fund, which totaled \$4,499,777 in 2004, decreased \$411,670 from 2003. The net increase in fund balance for the general fund was \$202,948 or 130.67%.
- The street fund had revenues of \$741,051 in 2004. The expenditures of the street fund, totaled \$671,524 in 2004. The net increase in fund balance for the street fund was \$69,527 or 40.96%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, decreased in 2004 by \$323,004. This decrease in net assets was due primarily to a lack of capital grants and contributions.
- In the general fund, the actual revenues came in \$365,334 lower than they were in the final budget and actual expenditures were \$468,269 less than the amount in the final budget. Budgeted revenues increased \$474,247 from the original to the final budget due primarily to an increase in projected income taxes and intergovernmental revenue. Budgeted expenditures increased \$651,177 from the original to the final budget due primarily to an increase in the cost of general government expenditures.

Using this Annual Financial Report

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

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

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *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 restricting revenue growth, facility conditions, required community programs 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 police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

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

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and Street fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-25 of this report.

Proprietary Funds

The City maintains two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and refuse management functions. The City's water and sewer enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insurance. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A private purpose trust and agency funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 30-31 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33-61 of this report.

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2004 and 2003:

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2004 Total	2003 Total
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>		
<u>Assets</u>						
Current and other assets	\$ 3,353,099	\$ 2,957,522	\$ 3,179,361	\$ 5,691,046	\$ 6,310,621	\$ 8,870,407
Capital assets	<u>3,404,436</u>	<u>9,537,841</u>	<u>3,601,802</u>	<u>6,603,570</u>	<u>12,942,277</u>	<u>10,205,372</u>
Total assets	<u>6,757,535</u>	<u>12,495,363</u>	<u>6,781,163</u>	<u>12,294,616</u>	<u>19,252,898</u>	<u>19,075,779</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,321,234	6,090,082	1,463,370	2,334,809	7,411,316	3,798,179
Other liabilities	<u>961,798</u>	<u>2,337,223</u>	<u>957,413</u>	<u>5,568,745</u>	<u>3,299,021</u>	<u>6,526,158</u>
Total liabilities	<u>2,283,032</u>	<u>8,427,305</u>	<u>2,420,783</u>	<u>7,903,554</u>	<u>10,710,337</u>	<u>10,324,337</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	2,610,711	3,698,518	2,656,384	4,457,918	6,309,229	7,114,302
Restricted	1,503,786	-	1,586,813	-	1,503,786	1,586,813
Unrestricted	<u>360,006</u>	<u>369,540</u>	<u>117,183</u>	<u>(66,856)</u>	<u>729,546</u>	<u>50,327</u>
Total net assets	<u>\$ 4,474,503</u>	<u>\$ 4,068,058</u>	<u>\$ 4,360,380</u>	<u>\$ 4,391,062</u>	<u>\$ 8,542,561</u>	<u>\$ 8,751,442</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$8,542,561. At year-end, net assets were \$4,474,503 and \$4,068,058 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 67.22% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$2,610,711 and \$3,698,518 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$1,503,786, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$360,006 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The table below shows the changes in net assets for fiscal years 2004 and 2003.

	Change in Net Assets					
	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	Governmental Activities <u>2003</u>	Business-type Activities <u>2003</u>	2004 Total	2003 Total
Revenues						
Program revenues:						
Charges for services	\$ 853,664	\$ 4,091,279	\$ 886,309	\$ 4,180,583	\$ 4,944,943	\$ 5,066,892
Operating grants and contributions	778,170	-	919,592	-	778,170	919,592
Capital grants and contributions	<u>-</u>	<u>3,083,120</u>	<u>180,168</u>	<u>822,700</u>	<u>3,083,120</u>	<u>1,002,868</u>
Total program revenues	<u>1,631,834</u>	<u>7,174,399</u>	<u>1,986,069</u>	<u>5,003,283</u>	<u>8,806,233</u>	<u>6,989,352</u>
General revenues:						
Property taxes	495,871	-	460,354	-	495,871	460,354
Income taxes	2,968,510	-	2,880,107	-	2,968,510	2,880,107
Unrestricted grants and entitlements	796,111	-	821,979	-	796,111	821,979
Investment earnings	38,626	-	57,109	-	38,626	57,109
Miscellaneous	<u>665,686</u>	<u>19,217</u>	<u>460,687</u>	<u>145,528</u>	<u>684,903</u>	<u>606,215</u>
Total general revenues	<u>4,964,804</u>	<u>19,217</u>	<u>4,680,236</u>	<u>145,528</u>	<u>4,984,021</u>	<u>4,825,764</u>
Total revenues	<u>6,596,638</u>	<u>7,193,616</u>	<u>6,666,305</u>	<u>5,148,811</u>	<u>13,790,254</u>	<u>11,815,116</u>
Expenses:						
General government	1,641,059	-	1,857,258	-	1,641,059	1,857,258
Security of persons and property	2,709,258	-	2,833,821	-	2,709,258	2,833,821
Public health and welfare	769,771	-	773,589	-	769,771	773,589
Transportation	827,958	-	788,456	-	827,958	788,456
Community environment	12,793	-	10,646	-	12,793	10,646
Leisure time activity	199,672	-	261,971	-	199,672	261,971
Urban redevelopment and housing	282,046	-	471,858	-	282,046	471,858
Interest and fiscal charges	39,958	-	46,727	-	39,958	46,727
Water	-	5,609,807	-	2,637,463	5,609,807	2,637,463
Sewer	-	1,346,630	-	1,382,204	1,346,630	1,382,204
Refuse	<u>-</u>	<u>560,183</u>	<u>-</u>	<u>485,606</u>	<u>560,183</u>	<u>485,606</u>
Total expenses	<u>6,482,515</u>	<u>7,516,620</u>	<u>7,044,326</u>	<u>4,505,273</u>	<u>13,999,135</u>	<u>11,549,599</u>
Increase (decrease) in net assets	114,123	(323,004)	(378,021)	643,538	(208,881)	265,517
Net assets at beginning of year	<u>4,360,380</u>	<u>4,391,062</u>	<u>4,738,401</u>	<u>3,747,524</u>	<u>8,751,442</u>	<u>8,485,925</u>
Net assets at end of year	<u>\$ 4,474,503</u>	<u>\$ 4,068,058</u>	<u>\$ 4,360,380</u>	<u>\$ 4,391,062</u>	<u>\$ 8,542,561</u>	<u>\$ 8,751,442</u>

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Governmental Activities

Governmental activities net assets increased \$114,123 in 2004. This increase is a result of decreasing expenses versus amounts reported in the prior year.

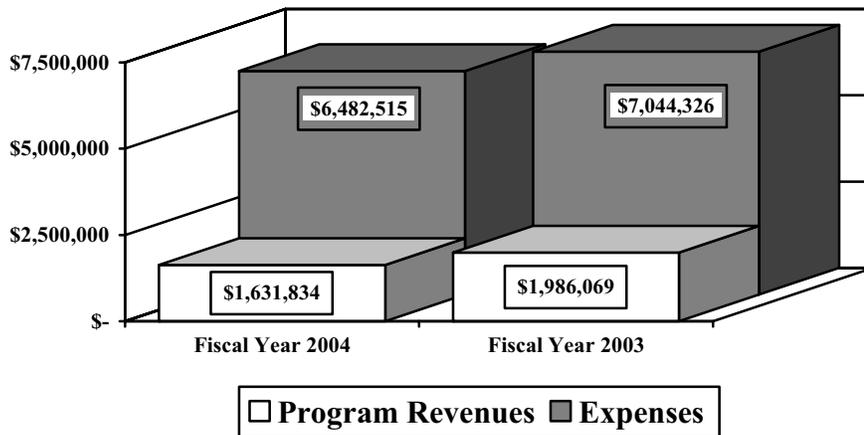
Security of persons and property, which primarily supports the operations of the fire department accounted for \$2,709,258 of the total expenses of the City. General government expenses totaled \$1,641,059. General government expenses were partially funded by \$278,999 in direct charges to users of the services. Transportation expenses were partially funded by \$529,122 in operating grants and contributions.

The state and federal government contributed to the City a total of \$778,170 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$529,122 subsidized transportation programs and \$243,432 subsidized urban redevelopment and housing activities.

General revenues totaled \$4,964,804, and amounted to 75.26% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,464,381. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$796,111.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2004.

Governmental Activities – Program Revenues vs. Total Expenses



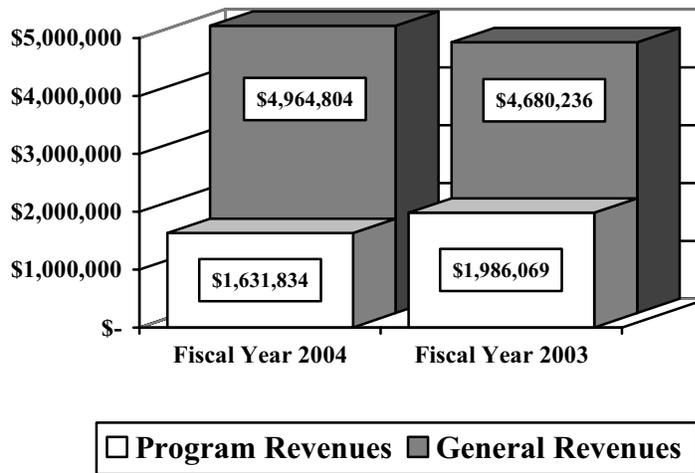
CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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	Governmental Activities			
	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government	\$ 1,641,059	\$ 1,362,060	\$ 1,857,258	\$ 1,602,562
Security of persons and property	2,709,258	2,703,642	2,833,821	2,833,821
Public health and welfare	769,771	195,629	773,589	264,715
Transportation	827,958	298,836	788,456	119,801
Community environment	12,793	12,270	10,646	10,016
Leisure time activity	199,672	199,672	261,971	139,862
Urban redevelopment and housing	282,046	38,614	471,858	40,753
Interest and fiscal charges	39,958	39,958	46,727	46,727
Total	<u>\$ 6,482,515</u>	<u>\$ 4,850,681</u>	<u>\$ 7,044,326</u>	<u>\$ 5,058,257</u>

The dependence upon general revenues for governmental activities is apparent, with 74.83% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2004 and 2003.

Governmental Activities – General and Program Revenues



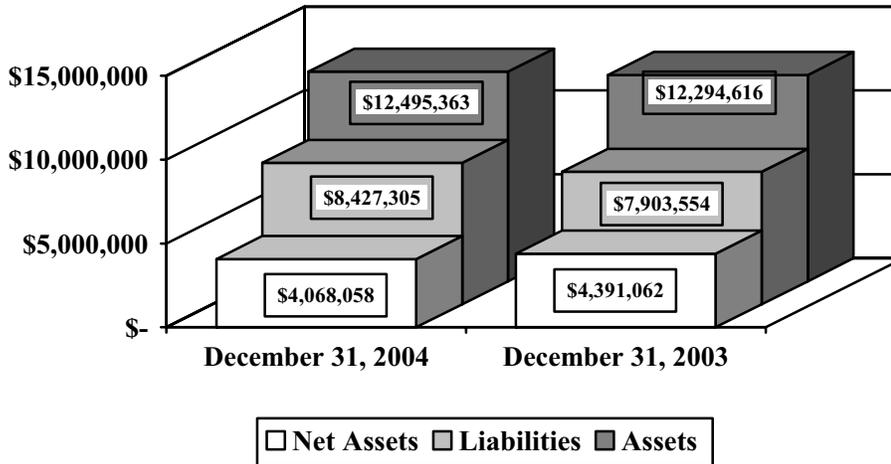
CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$7,174,399, general revenues of \$19,217 and expenses of \$7,516,620 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$1,589,784 which is \$203,366 above last year's total of \$1,386,418. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

	Fund Balances 12/31/04	Fund Balances 12/31/03	Increase (Decrease)
Major funds:			
General	\$ 358,258	\$ 155,310	\$ 202,948
Street	239,283	169,756	69,527
Other nonmajor governmental funds	<u>992,243</u>	<u>1,061,352</u>	<u>(69,109)</u>
Total	<u>\$ 1,589,784</u>	<u>\$ 1,386,418</u>	<u>\$ 203,366</u>

CITY OF COSHOCTON, OHIO

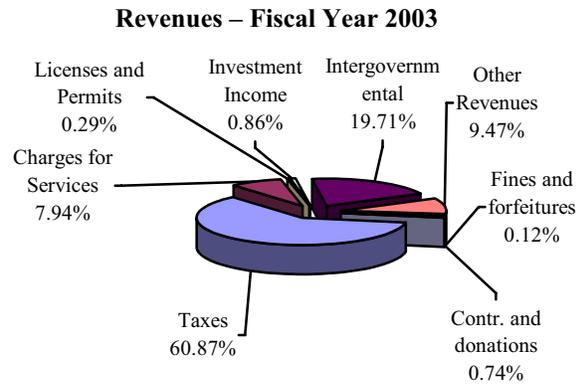
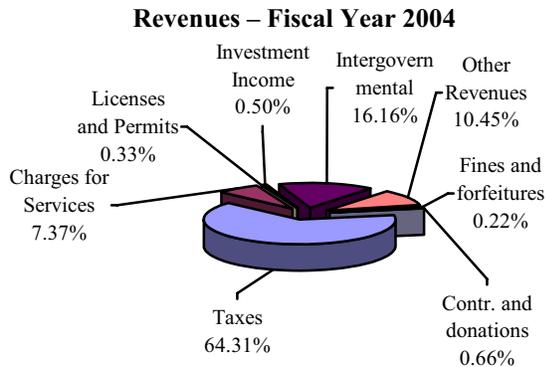
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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General Fund

The City's general fund balance increased \$202,948. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,024,493	\$ 2,658,757	13.76 %
Charges for services	346,491	346,679	(0.05) %
Licenses and permits	15,604	12,868	21.26 %
Fines and forfeitures	10,246	5,182	97.72 %
Investment income	23,584	37,361	(36.88) %
Contributions and donations	31,087	32,237	(3.57) %
Intergovernmental	759,805	860,965	(11.75) %
Other	491,415	413,707	18.78 %
Total	\$ 4,702,725	\$ 4,367,756	7.67 %

Tax revenue represents 64.31% of all general fund revenue. Tax revenue increased 13.76% over prior year. The increase in taxes revenue is due to an increase in the collections of municipal income taxes. The decrease in investment income is due to the amount of funds in the City's investment portfolio throughout the year.



CITY OF COSHOCTON, OHIO

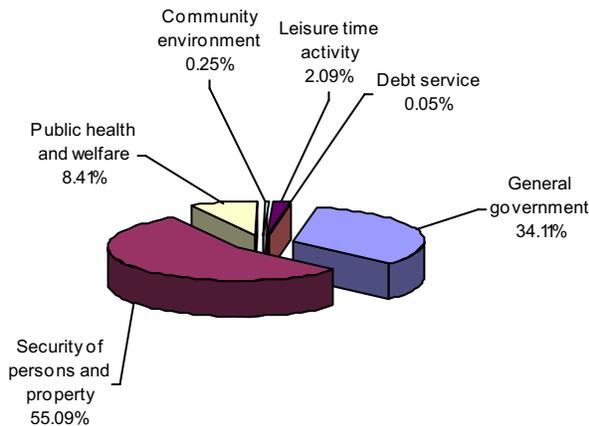
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

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

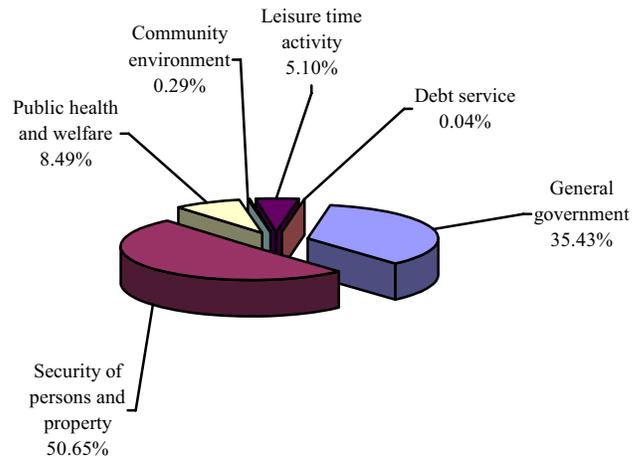
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,534,700	\$ 1,683,762	(8.85) %
Security of persons and property	2,479,465	2,584,476	(4.06) %
Public health and welfare	378,410	455,600	(16.94) %
Community environment	11,075	10,346	7.05 %
Leisure time activity	94,027	175,163	(46.32) %
Debt service	<u>2,100</u>	<u>2,100</u>	- %
 Total	 <u>\$ 4,499,777</u>	 <u>\$ 4,911,447</u>	 (8.38) %

The only increase was in the area of community environment. The City reduced total expenditures by 8.38%. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit cuts.

Expenditures - Fiscal Year 2004



Expenditures - Fiscal Year 2003



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund and street fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$651,177 from \$4,330,656 to \$4,981,833. Actual revenues of \$4,571,588 were less than final budgeted revenues by \$365,334. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$468,269 lower than the final budgeted amounts.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City had \$12,942,277 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, furniture and equipment, vehicles, infrastructure and construction in progress. Of this total, \$3,404,436 was reported in governmental activities and \$9,537,841 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2004 balances compared to 2003:

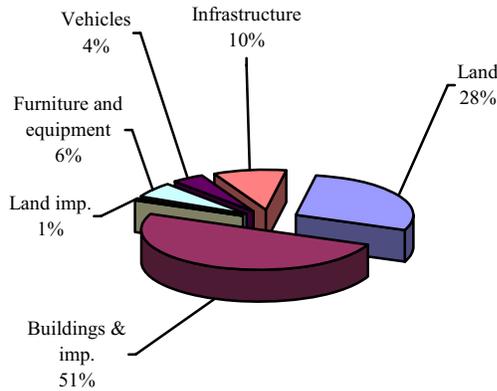
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 960,438	\$ 960,438	\$ 34,500	\$ 34,500	\$ 994,938	\$ 994,938
Land improvements	31,558	32,873	11,917	13,407	43,475	46,280
Buildings and improvements	1,711,985	1,782,596	2,549,557	2,686,260	4,261,542	4,468,856
Furniture and equipment	212,699	242,280	264,171	295,386	476,870	537,666
Vehicles	146,348	224,238	119,876	90,327	266,224	314,565
Infrastructure	341,408	359,377	-	-	341,408	359,377
Water and sewer lines	-	-	1,917,889	2,034,361	1,917,889	2,034,361
Construction in progress	-	-	4,639,931	1,449,329	4,639,931	1,449,329
Totals	<u>\$ 3,404,436</u>	<u>\$ 3,601,802</u>	<u>\$ 9,537,841</u>	<u>\$ 6,603,570</u>	<u>\$ 12,942,277</u>	<u>\$ 10,205,372</u>

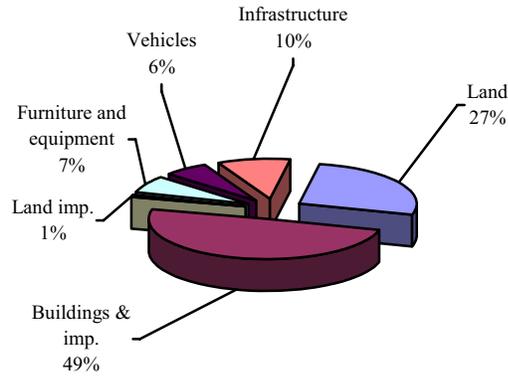
CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



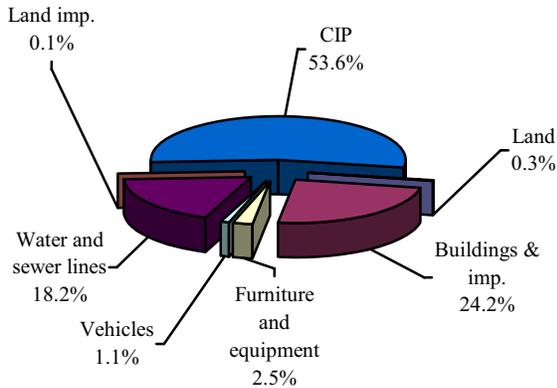
Capital Assets - Governmental Activities 2003



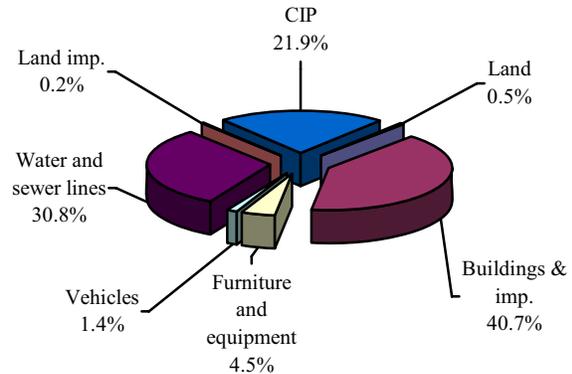
The City's largest capital asset category is buildings and improvements. The net book value of the City's buildings and improvements (cost less accumulated depreciation) represents approximately 51% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The City's third largest business-type capital asset category is water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's water and sewer lines (cost less accumulated depreciation) represents approximately 18.2% of the City's total business-type capital assets.

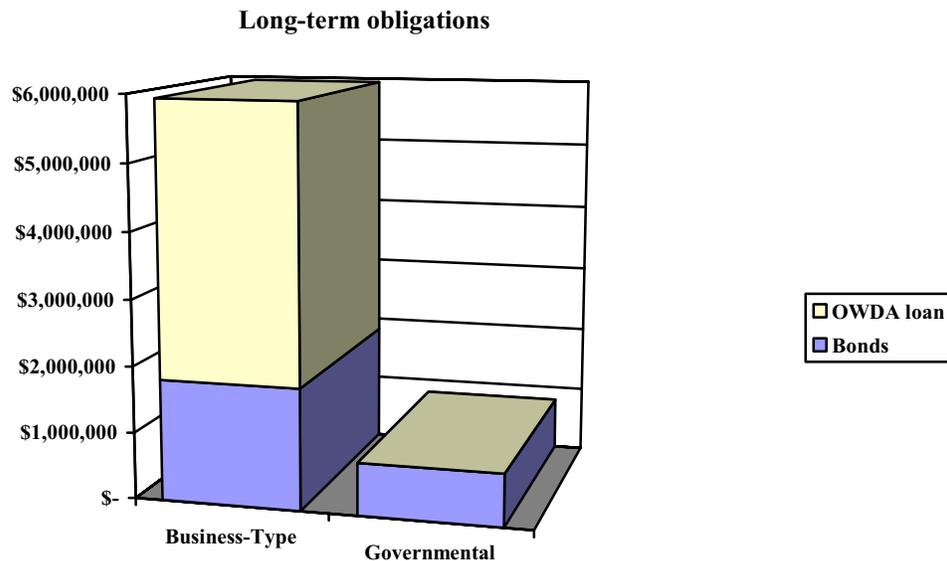
CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
Special assessment bonds	\$ 40,000	\$ 60,000
General obligation bonds	<u>750,000</u>	<u>880,000</u>
Total long-term obligations	<u>\$ 790,000</u>	<u>\$ 940,000</u>
	Business-type Activities	
	<u>2004</u>	<u>2003</u>
Revenue bonds	1,825,000	2,015,000
OWDA loan	<u>4,119,913</u>	<u>130,652</u>
Total long-term obligations	<u>\$5,944,913</u>	<u>\$2,145,652</u>

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 12 to the financial statements.

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the fiscal year 2004 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the 2004 budget. The primary objectives include continued improvement to constituent service delivery as well as long-term fiscal stability.

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue—local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to pursue economic development and job creation; maintain the community's reputation for high public safety standards; and adoption of a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2004 budget, the City emphasized various efforts to continue to contain costs while pursuing new sources of revenue. A ½% income tax increase was passed in May specifically for the operational expenses and capital improvements of the fire department. This is freeing up general fund monies for other departments.

The average unemployment rate for Coshocton County in 2004 was 10.2% compared to the 6.1% State of Ohio average. The City Auditor anticipates the 2004 rate to continue through 2005. In order to meet these challenges, further cost containment and/or revenue enhancement actions will be essential. With the continuation of conservative budgeting practices, the City's financial position is anticipated to remain stable in future years.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact Mrs. Lois Murphy, City Auditor, City of Coshocton, City Hall, 760 Chestnut Street, Coshocton, Ohio 43812.

CITY OF COSHOCTON, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,275,142	\$ 2,211,306	\$ 3,486,448
Receivables (net of allowances for uncollectibles):			
Income taxes	579,486	-	579,486
Property and other taxes	571,597	-	571,597
Accounts	169,716	676,938	846,654
Accrued interest	6,160	-	6,160
Special assessments	65,442	-	65,442
Internal balances	(11,536)	11,536	-
Due from other governments	697,092	-	697,092
Deferred charges	-	57,742	57,742
Capital assets:			
Land and construction in progress.	960,438	4,674,431	5,634,869
Depreciable capital assets, net	2,443,998	4,863,410	7,307,408
Total capital assets.	<u>3,404,436</u>	<u>9,537,841</u>	<u>12,942,277</u>
 Total assets.	 <u>6,757,535</u>	 <u>12,495,363</u>	 <u>19,252,898</u>
Liabilities:			
Accounts payable.	74,124	107,364	181,488
Accrued wages and benefits	54,629	34,094	88,723
Due to other governments	133,894	41,867	175,761
Deferred revenue.	605,596	-	605,596
Accrued interest payable.	4,837	35,176	40,013
Claims payable.	88,718	-	88,718
Note payable	-	2,000,000	2,000,000
Judgements payable	-	118,722	118,722
Long-term liabilities:			
Due within one year	236,167	238,294	474,461
Due in more than one year	1,085,067	5,851,788	6,936,855
 Total liabilities	 <u>2,283,032</u>	 <u>8,427,305</u>	 <u>10,710,337</u>
Net assets:			
Invested in capital assets, net of related debt	2,610,711	3,698,518	6,309,229
Restricted for:			
Capital projects.	27,906	-	27,906
Debt service	166,531	-	166,531
Perpetual care:			
Expendable	110,980	-	110,980
Nonexpendable	250,000	-	250,000
Transportation projects	537,152	-	537,152
Other purposes	411,217	-	411,217
Unrestricted.	<u>360,006</u>	<u>369,540</u>	<u>729,546</u>
 Total net assets	 <u>\$ 4,474,503</u>	 <u>\$ 4,068,058</u>	 <u>\$ 8,542,561</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 1,641,059	\$ 278,999	\$ -	\$ -
Security of persons and property.	2,709,258	-	5,616	-
Public health and welfare	769,771	574,142	-	-
Transportation	827,958	-	529,122	-
Community environment.	12,793	523	-	-
Leisure time activity.	199,672	-	-	-
Urban redevelopment and housing	282,046	-	243,432	-
Interest and fiscal charges.	39,958	-	-	-
Total governmental activities	<u>6,482,515</u>	<u>853,664</u>	<u>778,170</u>	<u>-</u>
Business-type Activities:				
Water	5,609,807	2,155,357	-	3,083,120
Sewer	1,346,630	1,393,611	-	-
Nonmajor:				
Refuse.	560,183	542,311	-	-
Total business-type activities	<u>7,516,620</u>	<u>4,091,279</u>	<u>-</u>	<u>3,083,120</u>
Total primary government.	<u>\$ 13,999,135</u>	<u>\$ 4,944,943</u>	<u>\$ 778,170</u>	<u>\$ 3,083,120</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Fire pension.	
Income taxes levied for:	
General purposes.	
Street fund	
Debt service	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
Total general revenues.	
Change in net assets.	
Net assets at beginning of year (restated).	
Net assets at end of year.	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,362,060)	\$ -	\$ (1,362,060)
(2,703,642)	-	(2,703,642)
(195,629)	-	(195,629)
(298,836)	-	(298,836)
(12,270)	-	(12,270)
(199,672)	-	(199,672)
(38,614)	-	(38,614)
(39,958)	-	(39,958)
<u>(4,850,681)</u>	<u>-</u>	<u>(4,850,681)</u>
-	(371,330)	(371,330)
-	46,981	46,981
-	(17,872)	(17,872)
-	(342,221)	(342,221)
<u>(4,850,681)</u>	<u>(342,221)</u>	<u>(5,192,902)</u>
443,269	-	443,269
52,602	-	52,602
2,570,135	-	2,570,135
213,187	-	213,187
185,188	-	185,188
796,111	-	796,111
38,626	-	38,626
665,686	19,217	684,903
<u>4,964,804</u>	<u>19,217</u>	<u>4,984,021</u>
114,123	(323,004)	(208,881)
<u>4,360,380</u>	<u>4,391,062</u>	<u>8,751,442</u>
<u>\$ 4,474,503</u>	<u>\$ 4,068,058</u>	<u>\$ 8,542,561</u>

CITY OF COSHOCTON, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 110,526	\$ 211,658	\$ 947,135	\$ 1,269,319
Receivables (net of allowance for uncollectibles):				
Income taxes	496,750	49,948	32,788	579,486
Property and other taxes	510,996	-	60,601	571,597
Accounts	82,239	-	87,095	169,334
Accrued interest	5,961	133	66	6,160
Special assessments	-	-	65,442	65,442
Due from other governments	412,395	237,631	47,066	697,092
	<u>\$ 1,618,867</u>	<u>\$ 499,370</u>	<u>\$ 1,240,193</u>	<u>\$ 3,358,430</u>
Total assets				
Liabilities:				
Accounts payable	\$ 32,609	\$ 12,691	\$ 28,824	\$ 74,124
Accrued wages and benefits	42,300	10,997	1,332	54,629
Due to other governments	116,043	11,858	5,993	133,894
Deferred revenue.	1,069,657	224,541	211,801	1,505,999
	<u>1,260,609</u>	<u>260,087</u>	<u>247,950</u>	<u>1,768,646</u>
Total liabilities				
Fund Balances:				
Reserved for encumbrances	5,718	1,225	96,626	103,569
Reserved for unclaimed monies	2,998	-	-	2,998
Reserved for perpetual care	-	-	250,000	250,000
Unreserved, undesignated, reported in:				
General fund	349,542	-	-	349,542
Special revenue funds.	-	238,058	418,705	656,763
Debt service fund	-	-	88,026	88,026
Capital projects funds.	-	-	27,906	27,906
Permanent fund	-	-	110,980	110,980
	<u>358,258</u>	<u>239,283</u>	<u>992,243</u>	<u>1,589,784</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 1,618,867</u>	<u>\$ 499,370</u>	<u>\$ 1,240,193</u>	<u>\$ 3,358,430</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 1,589,784
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,404,436
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 56,002	
Income taxes	316,361	
Investment income	1,475	
Special assessments	65,442	
Intergovernmental revenues	<u>461,123</u>	
Total		900,403
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of assets. The net assets of the internal service fund, including internal balances of \$11,536, are:		(94,049)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities (excluding amounts reported in the internal service fund) are as follows:		
Accrued interest payable	4,837	
Special assessment bonds	40,000	
General obligation bonds	750,000	
Compensated absences	527,509	
Capital lease payable	<u>3,725</u>	
		<u>(1,326,071)</u>
Net assets of governmental activities		<u><u>\$ 4,474,503</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,561,817	\$ 251,638	\$ 167,288	\$ 2,980,743
Property and other taxes	462,676	-	54,951	517,627
Charges for services	346,491	-	418,435	764,926
Licenses and permits	15,604	-	18,976	34,580
Fines and forfeitures	10,246	-	43,912	54,158
Intergovernmental	759,805	485,750	305,401	1,550,956
Special assessments.	-	-	26,694	26,694
Investment income	23,584	1,136	15,078	39,798
Contributions and donations	31,087	-	-	31,087
Other	491,415	2,527	142,648	636,590
Total revenues	<u>4,702,725</u>	<u>741,051</u>	<u>1,193,383</u>	<u>6,637,159</u>
Expenditures:				
Current:				
General government.	1,534,700	-	50,770	1,585,470
Security of persons and property	2,479,465	-	92,000	2,571,465
Public health and welfare	378,410	-	363,524	741,934
Transportation.	-	671,524	32,073	703,597
Community environment	11,075	-	1,718	12,793
Leisure time activity.	94,027	-	90,272	184,299
Urban redevelopment and housing	-	-	282,046	282,046
Capital outlay	-	-	159,514	159,514
Debt service:				
Principal retirement.	1,693	-	150,000	151,693
Interest and fiscal charges.	407	-	40,575	40,982
Total expenditures	<u>4,499,777</u>	<u>671,524</u>	<u>1,262,492</u>	<u>6,433,793</u>
Net change in fund balances	202,948	69,527	(69,109)	203,366
Fund balances at beginning of year	<u>155,310</u>	<u>169,756</u>	<u>1,061,352</u>	<u>1,386,418</u>
Fund balances at end of year	<u>\$ 358,258</u>	<u>\$ 239,283</u>	<u>\$ 992,243</u>	<u>\$ 1,589,784</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ 203,366

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$222,166) exceeded capital outlays (\$24,800) in the current period. (197,366)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (40,926)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 151,693

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,024

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (14,742)

An internal service fund is used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balances is allocated among the governmental activities. 11,074

Change in net assets of governmental activities \$ 114,123

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 2,466,895	\$ 2,760,662	\$ 2,545,230	\$ (215,432)
Property and other taxes	480,225	480,225	462,676	(17,549)
Charges for services	318,910	356,887	329,037	(27,850)
Licenses and permits.	15,124	16,925	15,604	(1,321)
Fines and forfeitures.	5,932	6,638	6,120	(518)
Intergovernmental	647,603	724,723	668,168	(56,555)
Investment income	24,328	27,226	25,101	(2,125)
Contributions and donations.	30,130	33,718	31,087	(2,631)
Other	473,528	529,918	488,565	(41,353)
Total revenues	<u>4,462,675</u>	<u>4,936,922</u>	<u>4,571,588</u>	<u>(365,334)</u>
Expenditures:				
Current:				
General government	1,726,357	1,819,595	1,544,174	275,421
Security of persons and property	2,511,240	2,549,266	2,478,170	71,096
Public health and welfare.	495,701	479,755	384,868	94,887
Community environment	12,785	14,875	11,123	3,752
Leisure time activity	160,573	118,342	95,229	23,113
Total expenditures.	<u>4,906,656</u>	<u>4,981,833</u>	<u>4,513,564</u>	<u>468,269</u>
Net change in fund balance	(443,981)	(44,911)	58,024	102,935
Fund balance at beginning of year.	42,251	42,251	42,251	-
Prior year encumbrances appropriated	<u>4,533</u>	<u>4,533</u>	<u>4,533</u>	-
Fund balance at end of year	<u>\$ (397,197)</u>	<u>\$ 1,873</u>	<u>\$ 104,808</u>	<u>\$ 102,935</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 STREET FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 295,535	\$ 295,535	\$ 255,922	\$ (39,613)
Intergovernmental	550,235	550,235	476,483	(73,752)
Investment income	1,312	1,312	1,136	(176)
Other	2,918	2,918	2,527	(391)
Total revenues.	<u>850,000</u>	<u>850,000</u>	<u>736,068</u>	<u>(113,932)</u>
Expenditures:				
Current:				
Transportation	<u>897,544</u>	<u>903,081</u>	<u>689,813</u>	<u>213,268</u>
Total expenditures	<u>897,544</u>	<u>903,081</u>	<u>689,813</u>	<u>213,268</u>
Net change in fund balance.	(47,544)	(53,081)	46,255	99,336
Fund balance at beginning of year	160,148	160,148	160,148	-
Prior year encumbrances appropriated	<u>4,030</u>	<u>4,030</u>	<u>4,030</u>	<u>-</u>
Fund balance at end of year	<u>\$ 116,634</u>	<u>\$ 111,097</u>	<u>\$ 210,433</u>	<u>\$ 99,336</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities -Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Nonmajor	Total	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 1,805,401	\$ 330,953	\$ 74,952	\$ 2,211,306	\$ 5,823
Receivables (net of allowance for uncollectibles):					
Accounts	296,547	266,828	113,563	676,938	382
Deferred charges	-	57,742	-	57,742	-
Total current assets	2,101,948	655,523	188,515	2,945,986	6,205
Noncurrent assets:					
Capital assets:					
Land and construction in progress	4,674,431	-	-	4,674,431	-
Depreciable capital assets, net	2,523,587	2,339,823	-	4,863,410	-
Total capital assets	7,198,018	2,339,823	-	9,537,841	-
Total noncurrent assets.	7,198,018	2,339,823	-	9,537,841	-
Total assets	9,299,966	2,995,346	188,515	12,483,827	6,205
Liabilities:					
Current liabilities:					
Accounts payable.	77,554	29,810	-	107,364	-
Accrued wages and benefits	20,429	13,665	-	34,094	-
Compensated absences	30,892	7,402	-	38,294	-
Due to other governments	25,034	16,833	-	41,867	-
Claims payable.	-	-	-	-	88,718
Note payable	2,000,000	-	-	2,000,000	-
Judgements payable	118,722	-	-	118,722	-
Current portion of revenue bonds	-	200,000	-	200,000	-
Accrued interest payable.	29,247	5,929	-	35,176	-
Total current liabilities	2,301,878	273,639	-	2,575,517	88,718
Long-term liabilities:					
Revenue bonds	-	1,519,410	-	1,519,410	-
OWDA loans	4,119,913	-	-	4,119,913	-
Compensated absences	154,979	57,486	-	212,465	-
Total long-term liabilities	4,274,892	1,576,896	-	5,851,788	-
Total liabilities	6,576,770	1,850,535	-	8,427,305	88,718
Net assets:					
Invested in capital assets, net of related debt.	3,078,105	620,413	-	3,698,518	-
Unrestricted (deficit)	(354,909)	524,398	188,515	358,004	(82,513)
Total net assets	\$ 2,723,196	\$ 1,144,811	\$ 188,515	4,056,522	\$ (82,513)
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				11,536	
Net assets of business-type activities				\$ 4,068,058	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Operating revenues:					
Charges for services	\$ 2,155,357	\$ 1,393,611	\$ 542,311	\$ 4,091,279	\$ 1,018,074
Other	17,354	1,863	-	19,217	11,070
Total operating revenues	<u>2,172,711</u>	<u>1,395,474</u>	<u>542,311</u>	<u>4,110,496</u>	<u>1,029,144</u>
Operating expenses:					
Personal services	974,823	548,313	-	1,523,136	-
Contract services	3,196,655	203,934	456,756	3,857,345	162,600
Materials and supplies	1,192,521	386,576	103,427	1,682,524	39
Claims	-	-	-	-	823,383
Other	160	-	-	160	-
Depreciation	201,988	122,423	-	324,411	-
Total operating expenses	<u>5,566,147</u>	<u>1,261,246</u>	<u>560,183</u>	<u>7,387,576</u>	<u>986,022</u>
Operating income (loss)	<u>(3,393,436)</u>	<u>134,228</u>	<u>(17,872)</u>	<u>(3,277,080)</u>	<u>43,122</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	-	-	405
Intergovernmental	3,083,120	-	-	3,083,120	-
Interest expense and fiscal charges	<u>(64,320)</u>	<u>(97,177)</u>	<u>-</u>	<u>(161,497)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>3,018,800</u>	<u>(97,177)</u>	<u>-</u>	<u>2,921,623</u>	<u>405</u>
Changes in net assets	(374,636)	37,051	(17,872)	(355,457)	43,527
Net assets at beginning of year (restated)	<u>3,097,832</u>	<u>1,107,760</u>	<u>206,387</u>		<u>(126,040)</u>
Net assets at end of year	<u>\$ 2,723,196</u>	<u>\$ 1,144,811</u>	<u>\$ 188,515</u>		<u>\$ (82,513)</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>32,453</u>	
Changes in net assets of business-type activities				<u>\$ (323,004)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 2,017,538	\$ 1,334,583	\$ 537,878	\$ 3,889,999	\$ 1,017,692
Cash received from other operations	17,354	1,863	-	19,217	11,070
Cash payments for personal services	(960,671)	(609,442)	-	(1,570,113)	-
Cash payments for contract services	(3,230,009)	(227,984)	(560,183)	(4,018,176)	(162,600)
Cash payments for materials and supplies	(1,182,596)	(372,780)	-	(1,555,376)	(39)
Cash payments for claims	-	-	-	-	(897,009)
Cash payments for other expenses	(160)	-	-	(160)	-
Net cash provided by (used in) operating activities.	<u>(3,338,544)</u>	<u>126,240</u>	<u>(22,305)</u>	<u>(3,234,609)</u>	<u>(30,886)</u>
Cash flows from noncapital financing activities:					
Cash received from grants	3,083,120	-	-	3,083,120	-
Net cash provided by noncapital financing activities	<u>3,083,120</u>	<u>-</u>	<u>-</u>	<u>3,083,120</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(3,213,495)	(45,187)	-	(3,258,682)	-
Principal retirement on revenue bonds	-	(190,000)	-	(190,000)	-
Principal retirement on notes	(5,090,000)	-	-	(5,090,000)	-
Proceeds of notes	2,000,000	-	-	2,000,000	-
Proceeds of loans	3,989,261	-	-	3,989,261	-
Interest and fiscal charges	(109,506)	(77,325)	-	(186,831)	-
Net cash used in capital and related financing activities	<u>(2,423,740)</u>	<u>(312,512)</u>	<u>-</u>	<u>(2,736,252)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	-	-	-	-	405
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>405</u>
Net decrease in cash and cash equivalents	(2,679,164)	(186,272)	(22,305)	(2,887,741)	(30,481)
Cash and cash equivalents at beginning of year	4,484,565	517,225	97,257	5,099,047	36,304
Cash and cash equivalents at end of year	<u>\$ 1,805,401</u>	<u>\$ 330,953</u>	<u>\$ 74,952</u>	<u>\$ 2,211,306</u>	<u>\$ 5,823</u>

- - continued

CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (3,393,436)	\$ 134,228	\$ (17,872)	\$ (3,277,080)	\$ 43,122
Adjustments:					
Depreciation	201,988	122,423	-	324,411	-
Changes in assets and liabilities:					
(Increase) in accounts receivable.	(65,471)	(59,028)	(4,433)	(128,932)	(382)
(Decrease) in accounts payable	(18,529)	(8,171)	-	(26,700)	-
Increase (decrease) in accrued wages and benefits . .	15,297	(4,001)	-	11,296	-
(Decrease) in due to other governments.	(6,018)	(2,051)	-	(8,069)	-
(Decrease) in compensated absences payable	(27)	(57,160)	-	(57,187)	-
(Decrease) in judgements payable	(72,348)	-	-	(72,348)	-
(Decrease) in claims payable	-	-	-	-	(73,626)
Net cash provided by (used in) operating activities . . .	<u>\$ (3,338,544)</u>	<u>\$ 126,240</u>	<u>\$ (22,305)</u>	<u>\$ (3,234,609)</u>	<u>\$ (30,886)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 247,113	\$ 12,947
Cash in segregated accounts	-	2,347
Receivables:		
Accrued interest.	<u>1,755</u>	<u>-</u>
Total assets.	<u>248,868</u>	<u>\$ 15,294</u>
Liabilities:		
Undistributed monies.	<u>-</u>	<u>\$ 15,294</u>
Total liabilities	<u>-</u>	<u>\$ 15,294</u>
Net assets:		
Held in trust for other purposes	<u>248,868</u>	
Total net assets	<u>\$ 248,868</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 3,454
Total additions	<u>3,454</u>
 Deductions:	
Benefits.	<u>9,071</u>
Total deductions	<u>9,071</u>
Changes in net assets	(5,617)
Net assets at beginning of year	<u>254,485</u>
Net assets at end of year	<u><u>\$ 248,868</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY

The City of Coshocton (the "City"), established in 1811, is a statutory municipal corporation established and operated under the laws of the State of Ohio. The City is organized as a Mayor-council form of government. Eight council members are each elected for staggered two-year terms. The mayor is elected for a four year term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The City provides various services including fire protection and prevention, water and sewer services, street maintenance and repairs, planning and zoning, building inspection, parks and recreation, refuse collection and general administrative services. The operation of each of these activities is directly controlled by the Council through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organizations' governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organizations resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Based upon the application of this criteria, the City has no component units. The basic financial statements of the reporting entity include only those of the City (the primary government). The following organizations are described due to their relationship to the City:

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

JOINTLY GOVERNED ORGANIZATIONS

The City is associated with the Ohio Mid-Eastern Governments Association (OMEGA), which is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a seventeen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The mayor of the City of Coshocton serves as the City's representative on the board. The board has total control over budgeting, personnel and financial matters. Each member currently pays a per capita membership fee based on the most recent United States census. During 2004, OMEGA received \$1,635 from the City of Coshocton for an annual fee. OMEGA has no outstanding debt. Information can be obtained from 326 Highland Avenue, PO Box 130, Cambridge, Ohio 43725.

PUBLIC ENTITY RISK POOL

The City participates in the Ohio Government Risk Management Plan (OGRMP), an insurance purchasing pool for commercial insurance, as established under Section 2744.08 of the Ohio Revised Code. The board of directors is responsible for collecting premiums, making payments to insurance agents, making payments to insurance companies, depositing appropriate amounts into OGRMP accounts and reimbursing board members for their expenses. The board of directors consists of eleven members elected from the participants.

B. Basis of Presentation - Fund Accounting

The City's BFS consists 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 activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net 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 limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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 financial statements. Fiduciary funds are reported by type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise fund include personnel and other expenses related to sewer, water and refuse operations and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

C. 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.

Street Fund - The street fund accounts for all transactions relating to street maintenance and construction.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

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

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

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

The City has one nonmajor enterprise fund to account for the operations of providing refuse removal to the residents and commercial users located within the City.

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

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. The City's only trust fund is a private purpose trust which accounts for the Bachert Trust. The City's agency funds account for monies held for other governments and undistributed assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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 financial statements for governmental funds.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

E. 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 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 thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 8). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from 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 year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and 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 COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Mayor presents the following fiscal year's annual operating budget to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted by Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

To improve cash management, 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 the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Equivalents” on the financial statements.

During fiscal year 2004, investments were limited to repurchase agreements, nonnegotiable certificates of deposit and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amount to \$23,584 which includes \$22,999 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City’s central bank account. These interest bearing depository accounts are presented in the financial statements as “cash in segregated accounts” since they are not required to be deposited into the City treasury.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City’s investment account at year-end is provided in Note 4.

H. Inventories of Materials and Supplies

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 in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

I. Capital Assets

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

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of storm sewers, streets, and water and sewer lines. 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 capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	25 years	20 years
Buildings and improvements	40 years	10 - 40 years
Furniture and equipment	5 - 15 years	5 - 40 years
Vehicles	5 years	5 - 15 years
Infrastructure	25 years	40 - 50 years

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, “Accounting for Compensated Absences”, vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." On fund financial statements, long-term interfund loans are classified as "due to/from other funds" on the balance sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities 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.

M. 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 BFS.

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding unclaimed monies and perpetual care in the governmental fund financial statements. Under Ohio law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years. The perpetual care reservation represents the nonexpendable portion of the City's permanent fund which is used for cemetery maintenance.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

O. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

P. Net Assets

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

Q. Bond Issuance Cost and Accounting Loss

Bond issuance costs for proprietary fund types are reported as deferred charges and amortized over the term of the bonds. The accounting loss resulting from the advance refunding (the difference between the reacquisition price and the net carrying amount of the debt) is also amortized over the life of the refunded bonds. All items are amortized using the straight-line method since the results are not significantly different from the effective interest method.

R. 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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. *Governmental Activities and Business-Type Activities - Restatement of Net Assets* – Net assets of the governmental activities and business-type activities have been restated due to errors and omissions in the capital asset balances. This prior period adjustment had the following effect on net assets as previously reported.

	Governmental Activities	Business-Type Activities
Net assets January 1, 2004	\$ 4,235,214	\$ 3,444,369
Capital asset adjustment	125,166	946,693
Restated governmental activities net assets, January 1, 2004	\$ 4,360,380	\$ 4,391,062

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

	Water	Sewer	Nonmajor	Total Enterprise Funds
Net assets at January 1, 2004	\$ 2,151,139	\$ 1,107,760	\$ 206,387	\$ 3,465,286
Adjustment for capital assets	946,693	-	-	946,693
Restated net assets at January 1, 2004	<u>\$ 3,097,832</u>	<u>\$ 1,107,760</u>	<u>\$ 206,387</u>	<u>\$ 4,411,979</u>

B. Fund Deficits

At December 31, 2004, the health insurance internal service fund had deficit fund balance in the amount of \$82,513. Management is currently analyzing the operations of this fund to determine appropriate action to alleviate the deficit.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute into three categories:

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

Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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 in 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 monies may be deposited or invested in the following:

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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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 (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. 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.

The following information classifies 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, including a payroll clearance account, cash in segregated accounts and nonnegotiable certificates of deposit, was \$1,268,229 and the bank balance was \$1,326,470. Of the bank balance:

1. \$747,381 was covered by federal depository insurance; and
2. \$579,089 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Repurchase agreements	\$ 2,259,000	\$ 2,259,000	\$2,259,000
STAR Ohio	-	221,626	221,626
Total investments	<u>\$ 2,259,000</u>	<u>\$ 2,480,626</u>	<u>\$2,480,626</u>

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 3,748,855	\$ -
Investments of the cash management pool:		
Repurchase agreements	(2,259,000)	2,259,000
STAR Ohio	(221,626)	221,626
GASB Statement No. 3	<u>\$ 1,268,229</u>	<u>\$ 2,480,626</u>

NOTE 5 - JUDGEMENTS PAYABLE

On September 17, 2001, the City entered into an agreement with Clow Water Systems Corporation (CLOW). This agreement was intended to settle the overpayment for water usage by CLOW to the City. The overpayment resulted in a \$575,000 credit to CLOW. Per the agreement, the City is required to pay CLOW \$5,000 per month for 24 months beginning with the July 2001 payment. The City water department will credit water usage at CLOW until the remainder of the overpayment is satisfied. On December 31, 2004, the outstanding judgements payable was \$118,722.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Coshocton. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2004 was \$2.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real property tax	\$ 163,044,080
Public utility tangible personal property	6,626,280
Tangible personal property	<u>31,803,647</u>
Total assessed valuation	<u>\$ 201,474,007</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 7 - RECEIVABLES - (Continued)

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 579,486
Real and other taxes	571,597
Accounts	169,716
Accrued interest	6,160
Special assessments	65,442
Due from other governments	697,092

Business-type Activities:

Accounts	676,938
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment. The amount of delinquent special assessments at December 31, 2004 was \$22,001.

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies a municipal income tax of one percent on all net profits and all salaries, wages commissions and other compensation earned within the City as well as on incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100 percent 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 compensation and to remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are received by the general fund, street special revenue fund, and fire debt service fund.

NOTE 9 - CAPITAL ASSETS

A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of errors and omissions of capital assets in the prior year. Under GASB Statement No. 34, the City has elected to "phase in" the retroactive reporting of governmental infrastructure assets. The City plans to retroactively report infrastructure capital assets in the 2005 basic financial statements. Only governmental infrastructure capital assets acquired or constructed in 2003 and 2004 are reflected in the basic financial statements for the fiscal year ended December 31, 2004.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/03</u>
Land	\$ 398,168	\$ 562,270	\$ 960,438
Land improvements	32,873	-	32,873
Buildings and improvements	3,280,479	(562,270)	2,718,209
Furniture and equipment	708,754	-	708,754
Vehicles	904,926	-	904,926
Infrastructure	359,377	-	359,377
Less: accumulated depreciation	<u>(2,207,941)</u>	<u>125,166</u>	<u>(2,082,775)</u>
Total	<u>\$ 3,476,636</u>	<u>\$ 125,166</u>	<u>\$ 3,601,802</u>
<u>Business-type Activities:</u>			
Land	\$ 34,500	\$ -	\$ 34,500
Land improvements	46,852	-	46,852
Buildings and improvements	5,262,273	-	5,262,273
Furniture and equipment	3,446,397	-	3,446,397
Vehicles	364,653	-	364,653
Water and sewer lines	11,967,727	-	11,967,727
Construction in progress	551,911	897,418	1,449,329
Less: accumulated depreciation	<u>(16,017,436)</u>	<u>49,275</u>	<u>(15,968,161)</u>
Total	<u>\$ 5,656,877</u>	<u>\$ 946,693</u>	<u>\$ 6,603,570</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 9 - CAPITAL ASSETS - (Continued)

Capital asset activity for the year ended December 31, 2004, was as follows:

	Restated Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/04</u>
<u>Governmental Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 960,438	\$ -	\$ -	\$ 960,438
Total capital assets, not being depreciated	<u>960,438</u>	<u>-</u>	<u>-</u>	<u>960,438</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	32,873	-	-	32,873
Buildings and improvements	2,718,209	-	-	2,718,209
Furniture and equipment	708,754	12,800	-	721,554
Vehicles	904,926	12,000	(9,800)	907,126
Infrastructure	<u>359,377</u>	<u>-</u>	<u>-</u>	<u>359,377</u>
Total capital assets, being depreciated	<u>4,724,139</u>	<u>24,800</u>	<u>(9,800)</u>	<u>4,739,139</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	-	(1,315)	-	(1,315)
Buildings and improvements	(935,613)	(70,611)	-	(1,006,224)
Furniture and equipment	(466,474)	(42,381)	-	(508,855)
Vehicles	(680,688)	(89,890)	9,800	(760,778)
Infrastructure	<u>-</u>	<u>(17,969)</u>	<u>-</u>	<u>(17,969)</u>
Total accumulated depreciation	<u>(2,082,775)</u>	<u>(222,166)</u>	<u>9,800</u>	<u>(2,295,141)</u>
Total capital assets, being depreciated, net	<u>2,641,364</u>	<u>(197,366)</u>	<u>-</u>	<u>2,443,998</u>
Governmental activities capital assets, net	<u>\$ 3,601,802</u>	<u>\$ (197,366)</u>	<u>\$ -</u>	<u>\$ 3,404,436</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Restated Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 34,500	\$ -	\$ -	\$ 34,500
Construction in progress	<u>1,449,329</u>	<u>3,190,602</u>	<u>-</u>	<u>4,639,931</u>
Total capital assets, not being depreciated	<u>1,483,829</u>	<u>3,190,602</u>	<u>-</u>	<u>4,674,431</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	46,852	-	-	46,852
Buildings and improvements	5,262,273	-	-	5,262,273
Furniture and equipment	3,446,397	14,723	-	3,461,120
Vehicles	364,653	53,357	-	418,010
Infrastructure	<u>11,967,727</u>	<u>-</u>	<u>-</u>	<u>11,967,727</u>
Total capital assets, being depreciated	<u>21,087,902</u>	<u>68,080</u>	<u>-</u>	<u>21,155,982</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(33,445)	(1,490)	-	(34,935)
Buildings and improvements	(2,576,013)	(136,703)	-	(2,712,716)
Furniture and equipment	(3,151,011)	(45,938)	-	(3,196,949)
Vehicles	(274,326)	(23,808)	-	(298,134)
Infrastructure	<u>(9,933,366)</u>	<u>(116,472)</u>	<u>-</u>	<u>(10,049,838)</u>
Total accumulated depreciation	<u>(15,968,161)</u>	<u>(324,411)</u>	<u>-</u>	<u>(16,292,572)</u>
Total capital assets, being depreciated, net	<u>5,119,741</u>	<u>(256,331)</u>	<u>-</u>	<u>4,863,410</u>
Business-type activities capital assets, net	<u>\$ 6,603,570</u>	<u>\$ 2,934,271</u>	<u>\$ -</u>	<u>\$ 9,537,841</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 10,618
Security of persons and property	84,537
Public health and welfare	15,443
Transportation	100,600
Leisure time activity	<u>10,968</u>
Total depreciation expense - governmental activities	<u>\$ 222,166</u>

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

In prior years, the City entered into capitalized leases for six copiers and computer equipment. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$8,528. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Principal payments during fiscal year 2004 amounted to \$1,693 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2004:

<u>Year Ending December 31:</u>	<u>Principal and Interest</u>
2005	\$ 2,100
2006	<u>2,100</u>
Total minimum lease payments	4,200
Less: amount representing interest	<u>(475)</u>
Present value of net minimum lease payments	<u>\$ 3,725</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 11 - OTHER EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned, unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of 960 hours of accumulated, unused sick leave. As of December 31, 2004, the liability for unpaid compensated absences was \$778,268 for the entire City, which is reported as a fund liability and/or on the government-wide financial statements as applicable.

NOTE 12 - LONG-TERM OBLIGATIONS

During the fiscal year 2004, the following changes occurred in the City's long-term obligations:

	Balance			Balance	Amounts
	12/31/03	Additions	Reductions	12/31/04	Due in
					One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds:</u>					
1998 Fire Station					
various interest rates	\$ 880,000	\$ -	\$ (130,000)	\$ 750,000	\$ 140,000
<u>Special assessment bond:</u>					
1986 Downtown Street					
Series A - 7 3/8%	60,000	-	(20,000)	40,000	20,000
Total - bonds	940,000	-	(150,000)	790,000	160,000
<u>Other long-term obligations:</u>					
Compensated absences	517,952	105,561	(96,004)	527,509	74,388
Capital lease obligation	5,418	-	(1,693)	3,725	1,779
Total other long-term obligations	523,370	105,561	(97,697)	531,234	76,167
Total governmental activities					
long-term obligations	<u>\$ 1,463,370</u>	<u>\$ 105,561</u>	<u>\$ (247,697)</u>	<u>\$ 1,321,234</u>	<u>\$ 236,167</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/04</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Revenue Bonds</u>					
2001 Sewer System Improvement					
3.25% to 4.25%	\$ 2,015,000	\$ -	\$ (190,000)	\$ 1,825,000	\$200,000
Total - revenue bonds	<u>2,015,000</u>	<u>-</u>	<u>(190,000)</u>	<u>1,825,000</u>	<u>200,000</u>
<u>Other long-term obligations</u>					
Compensated absences	307,946	41,788	(98,975)	250,759	38,294
OWDA loan	<u>130,652</u>	<u>3,989,261</u>	<u>-</u>	<u>4,119,913</u>	<u>-</u>
Total other long-term obligations	<u>438,598</u>	<u>4,031,049</u>	<u>(98,975)</u>	<u>4,370,672</u>	<u>38,294</u>
Total business-type activities					
long-term obligations	<u>\$ 2,453,598</u>	<u>\$4,031,049</u>	<u>\$ (288,975)</u>	6,195,672	<u>\$238,294</u>
Less: unamortized deferred charges on refunding				<u>(105,590)</u>	
Total reported on the Statement of Net Assets				<u>\$ 6,090,082</u>	

The sewer and water revenue bonds are being paid from operating revenues collected and receipted into the water and sewage enterprise funds.

General obligation bonds are being paid from the municipal income tax. Special assessment bonds are being paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

On December 1, 1999, the City issued \$1,480,000 in general obligation bonds with interest rates varying from 3.2 percent to 6.5 percent. Proceeds were used to retire \$1,355,000 of outstanding 1989 fire station general obligation bonds.

On September 1, 2001, the City issued \$2,570,000 in sewer system refunding bonds, Series 2001, with an average interest rate of 3.67 percent to advance refund \$2,325,000 of outstanding Series 1992 bonds with an average interest rate of 6.3 percent. The net proceeds of \$2,483,386 (after payment of \$78,014 in underwriting fees and \$8,600 for bond insurance premium) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Series 1992 bonds. As a result, the Series 1992 bonds are considered to be defeased and the liability for those bonds has been removed from the sewer system fund. In December 2002, the refunded bonds were paid in full by the irrevocable trust.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$158,386. This difference, being reported as a deferral in the accompanying financial statements, is being charged to operations through the year 2012 using the straight-line method.

During 2004, the City entered into a debt financing arrangements through the OWDA to fund water treatment plant improvements. The amounts due to the OWDA are payable solely from water revenues. The loan agreement functions similar to a line-of-credit agreement. At December 31, 2004, the City has outstanding borrowings of \$4,119,913. As of December 31, 2004, the future annual debt service principal and interest payments for the loan is unavailable because monies related to the project are still being disbursed and the loan is not finalized.

As of December 31, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$20,501,356. Principal and interest requirements to retire the City's bonds outstanding at December 31, 2004 were:

Year	General Obligation Bonds			Special Assessment Bond		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 140,000	\$ 31,080	\$ 171,080	\$ 20,000	\$ 2,950	\$ 22,950
2006	145,000	25,480	170,480	20,000	1,475	21,475
2007	150,000	19,535	169,535	-	-	-
2008	155,000	13,310	168,310	-	-	-
2009	<u>160,000</u>	<u>6,800</u>	<u>166,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 750,000</u>	<u>\$ 96,205</u>	<u>\$ 846,205</u>	<u>\$ 40,000</u>	<u>\$ 4,425</u>	<u>\$ 44,425</u>

Year	Revenue Bonds		
	Principal	Interest	Total
2005	\$ 200,000	\$ 71,150	\$ 271,150
2006	210,000	63,150	273,150
2007	215,000	56,010	271,010
2008	225,000	48,270	273,270
2009	230,000	39,720	269,720
2010 - 2012	<u>745,000</u>	<u>62,738</u>	<u>807,738</u>
Total	<u>\$ 1,825,000</u>	<u>\$ 341,038</u>	<u>\$ 2,166,038</u>

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 13 - SHORT-TERM OBLIGATIONS

A summary of the note transactions for the year ended December 31, 2004, follows:

	<u>Outstanding</u> <u>12/31/2003</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2004</u>
<u>Business-Type Activities:</u>				
Water Note - 1.75%	\$ 5,090,000	\$ -	\$ (5,090,000)	\$ -
Water Note - 1.75%	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
Total	<u>\$ 5,090,000</u>	<u>\$ 2,000,000</u>	<u>\$ (5,090,000)</u>	<u>\$ 2,000,000</u>

The notes are backed by the full faith and credit of the City of Coshocton, and mature within one year. The water note outstanding at December 31, 2004 matures in February 2005.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2004, the City contracted for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
Rinehart, Walters, Danner & Associates	Public Officials Liability	\$ 1,000,000
	Umbrella Liability	1,000,000
	Comprehensive Crime	75,000
	Commercial Inland Marine	1,259,596
	Wrongful Acts	1,000,000
	EDP	239,367
	Property	28,916,047
	General Fire Liability/Rescue	1,420,226
	Automobile	1,000,000
	General Liability	1,000,000

Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

The City, together with other government entities, participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool, for commercial insurance coverage. The City pays an annual premium to the Plan for its general insurance coverage. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will insure through commercial companies to pay claims. The Plan is intended to achieve lower insurance rates for the participants. Under this Plan, the Ohio Government Risk Management's Board of Directors contracts with Hylant Administrative Services, Inc. to act as the agent and coordinate the pool. Hylant Administrative Services, Inc. then contracts with various insurance companies to cover losses.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 14 - RISK MANAGEMENT - (Continued)

The City participates in the Ohio Municipal League Group Rating Plan (OML) for workers' compensation. The intent of the OML is to achieve the benefit of a reduced premium for the participants, foster safer working environments and foster cost-effective claims management skills by virtue of its grouping and representation with other participants in the OML. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the OML. Each participant pays its workers' compensation premium to the State based on the rate for the OML rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the OML. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the OML. Participation in the OML is limited to cities that can meet the OML's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the OML.

The City manages the hospital/medical, dental and life insurance benefits for its employees on a self-insured basis through an internal service fund. A third party administrator, Cardinal Administrative Services, processes and pays the claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$20,000 per employee, per year.

The claims liability of \$88,718 reported in the internal service fund at December 31, 2004, was estimated based on billings in January through May 2004 and is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in the fund's claims liability amount in 2003 and 2004 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$ 162,344	\$ 823,383	\$ (897,009)	\$ 88,718
2003	80,726	1,188,258	(1,106,640)	162,344

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2004 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 9.55% was the portion used to fund pension obligations for 2004. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 12.70% was the portion used to fund pension obligations for 2004. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for pension obligation for the years ended December 31, 2004, 2003, and 2002 were \$228,958, \$191,817, and \$204,361, respectively; 92.34% has been contributed for 2004 and 100% for 2003 and 2002. \$17,521, representing the unpaid contribution for 2004, is recorded as a liability within the respective funds.

B. Ohio Police and Fire Pension Fund

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The 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 Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for pension obligation for the years ended December 31, 2004, 2003, and 2002 were \$119,289, \$121,421, and \$117,705, respectively; 73.96% has been contributed for 2004 and 100% for the years 2003 and 2002. \$31,059, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll and 4.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2004 employer rate was 16.70% of covered payroll and 4.00% was the portion used to fund health care.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$95,898.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2003 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively, at December 31, 2003 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2003 (the latest information available) was 369,885.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad 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.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), is 13,662 for police officers and 10,474 for firefighters. The amount of employer contributions used to pay postemployment benefits for firefighters was \$56,914. OP&F's total health care expense for the year ending December 31, 2003 (the latest information available), was \$150.853 million, which was net of member contributions of \$17.207 million.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ 58,024
Net adjustment for revenue accruals	131,137
Net adjustment for expenditure accruals	8,069
Adjustment for encumbrances	<u>5,718</u>
GAAP basis	<u>\$ 202,948</u>

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

B. Litigation

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.

NOTE 19 - SUBSEQUENT EVENT

In February 2005, the City passed an ordinance to issue \$1,500,000 in notes in anticipation of the issuance of bonds. The proceeds of these notes, along with available cash on-hand, were used to pay off the \$2,000,000 outstanding notes which matured in February 2005 (See Note 13).



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 Coshocton
Coshocton County
760 Chestnut Street
Coshocton, Ohio 43812

To the Members of City Council:

We have audited the basic financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 14, 2005, in which we noted the City restated its capital asset balance due to errors and omissions of previously recorded capital assets of the Business Type Activities. 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 the Comptroller General of the United States' *Government Auditing Standards*.

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 in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated July 14, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated July 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

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City of Coshocton
Coshocton County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required By *Government Auditing Standards*
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This report is intended solely for the information and use of the audit committee, management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 14, 2005

**CITY OF COSHOCTON
COSHOCTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .315(b)
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	The Community Development Block Grant Formula and Community Housing Improvement Program and the Home Investment Program as well as the OHCP Financial Management Rules and Regulations require grant funds and program income financial records to be maintained separately.	Fully corrected	Finding no longer valid.
2003-002	24 CFR Section 570.200 through 570.207, federal questioned cost in the amount of \$35,292.	Fully corrected	Finding no longer valid. It was paid back into that fund.



**Auditor of State
Betty Montgomery**

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800-282-0370
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CITY OF COSHOCTON

COSHOCTON 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
SEPTEMBER 27, 2005**