



**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, 2003, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2003, and the respective changes in financial position and the cash flows, where applicable, and the respective budgetary comparison for the General Fund and 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 and 9, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In addition, as described in Note 3, certain errors and omissions occurred resulting in the misclassification of previously reported capital assets and the City increased its capitalization threshold for capital assets from \$1,000 to \$5,000 during the year ended December 31, 2003. In addition, monies that were previously reported in the Water Fund were reclassified to the General Fund. To account for the above items, the fund balances at January 1, 2003 were restated.

The City experienced a deficiency of disbursements over receipts. This deficiency and management's plan in regard to this matter is described in Note 20 of the financial statements.

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Betty Montgomery
Auditor of State

September 3, 2004

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

The 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, 2003. 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 2003 are as follows:

- The total net assets of the City increased \$265,517. Net assets of governmental activities decreased \$378,021 or 8.19% over 2002 and net assets of business-type activities increased \$643,538 or 22.97% over 2002.
- General revenues accounted for \$4,680,236 of total governmental activities revenue. Program specific revenues accounted for \$1,986,069 or 29.79% of total governmental activities revenue.
- The City had \$7,044,326 in expenses related to governmental activities; \$1,986,069 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,058,257 were partially offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,680,236.
- The general fund had revenues of \$4,367,756 in 2003. This represents an increase of \$119,088 from 2002 revenues. The expenditures of the general fund, which totaled \$4,911,447 in 2003, decreased \$415,610 from 2002. The net decrease in fund balance for the general fund was \$543,691 or 77.78%.
- The street fund had revenues of \$843,082 in 2003. The expenditures of the street fund, totaled \$830,049 in 2003. The net increase in fund balance for the street fund was \$13,033 or 8.32%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, increased in 2003 by \$643,538. This increase in net assets was due primarily to capital grants and contributions of \$822,700 coupled with adequate charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues came in \$458,131 lower than they were in the final budget and actual expenditures were \$294,894 less than the amount in the final budget. Budgeted revenues decreased \$498,848 from the original to the final budget due primarily to a decline in projected income taxes and intergovernmental revenue. Budgeted expenditures increased \$117,414 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, 2003 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 2003?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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, 2003
UNAUDITED**

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 26-33 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 34-35 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 37-66 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
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The table below provides a summary of the City's net assets for 2003:

	Net Assets		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 3,179,361	\$ 5,691,046	\$ 8,870,407
Capital assets	<u>3,476,636</u>	<u>5,656,877</u>	<u>9,133,513</u>
Total assets	<u>6,655,997</u>	<u>11,347,923</u>	<u>18,003,920</u>
<u>Liabilities</u>			
Long-term liabilities outstanding	1,463,370	2,334,809	3,798,179
Other liabilities	<u>957,413</u>	<u>5,568,745</u>	<u>6,526,158</u>
Total liabilities	<u>2,420,783</u>	<u>7,903,554</u>	<u>10,324,337</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,531,218	3,511,225	6,042,443
Restricted	1,586,813	-	1,586,813
Unrestricted	<u>117,183</u>	<u>(66,856)</u>	<u>50,327</u>
Total net assets	<u>\$ 4,235,214</u>	<u>\$ 3,444,369</u>	<u>\$ 7,679,583</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$7,679,583. At year-end, net assets were \$4,235,214 and \$3,444,369 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 50.73% 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, 2003, was \$2,531,218 and \$3,511,225 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, \$1,586,813, 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 \$117,183 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

	Change in Net Assets		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 886,309	\$ 4,180,583	\$ 5,066,892
Operating grants and contributions	919,592	-	919,592
Capital grants and contributions	<u>180,168</u>	<u>822,700</u>	<u>1,002,868</u>
Total program revenues	<u>1,986,069</u>	<u>5,003,283</u>	<u>6,989,352</u>
General revenues:			
Property taxes	460,354	-	460,354
Income taxes	2,880,107	-	2,880,107
Unrestricted grants and entitlements	821,979	-	821,979
Investment earnings	57,109	-	57,109
Miscellaneous	<u>460,687</u>	<u>145,528</u>	<u>606,215</u>
Total general revenues	<u>4,680,236</u>	<u>145,528</u>	<u>4,825,764</u>
Total revenues	<u>6,666,305</u>	<u>5,148,811</u>	<u>11,815,116</u>
Expenses:			
General government	1,857,258	-	1,857,258
Security of persons and property	2,833,821	-	2,833,821
Public health and welfare	773,589	-	773,589
Transportation	788,456	-	788,456
Community environment	10,646	-	10,646
Leisure time activity	261,971	-	261,971
Urban redevelopment and housing	471,858	-	471,858
Interest and fiscal charges	46,727	-	46,727
Water	-	2,637,463	2,637,463
Sewer	-	1,382,204	1,382,204
Refuse	<u>-</u>	<u>485,606</u>	<u>485,606</u>
Total expenses	<u>7,044,326</u>	<u>4,505,273</u>	<u>11,549,599</u>
Increase (decrease) in net assets	<u>\$ (378,021)</u>	<u>\$ 643,538</u>	<u>\$ 265,517</u>

Governmental Activities

Governmental activities net assets decreased \$378,021 in 2003. This lesser decrease is a result of slightly decreasing expenses and an increase in municipal income taxes versus amounts reported in the prior year.

Security of persons and property, which primarily supports the operations of the fire department accounted for \$2,833,821 of the total expenses of the City. General government expenses totaled \$1,857,258. General government expenses were partially funded by \$254,696 in direct charges to users of the services. Transportation expenses were partially funded by \$488,487 in operating grants and contributions and \$180,168 in capital grants and contributions.

CITY OF COSHOCTON, OHIO

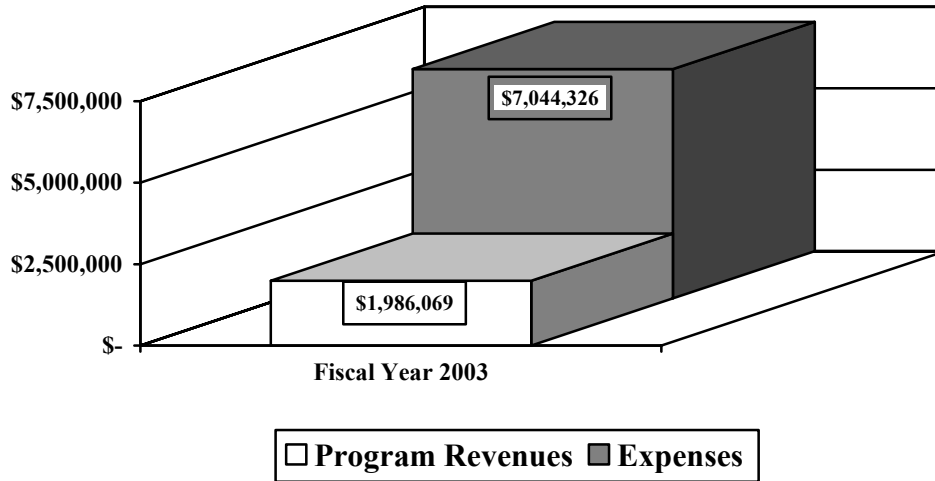
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
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The state and federal government contributed to the City a total of \$919,592 in operating grants and contributions and \$180,168 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$488,487 subsidized transportation programs and \$431,105 subsidized urban redevelopment and housing activities.

General revenues totaled \$4,680,236, and amounted to 70.21% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,340,461. 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 \$821,979. In August 2002, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2003.

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 2003. Comparisons to 2002 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF COSHOCTON, OHIO

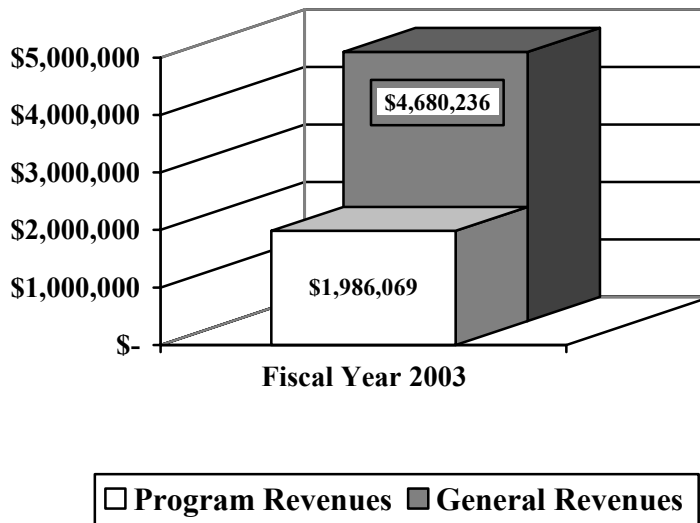
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:		
General government	\$ 1,857,258	\$ 1,602,562
Security of persons and property	2,833,821	2,833,821
Public health and welfare	773,589	264,715
Transportation	788,456	119,801
Community environment	10,646	10,016
Leisure time activity	261,971	139,862
Urban redevelopment and housing	471,858	40,753
Interest and fiscal charges	<u>46,727</u>	<u>46,727</u>
 Total	 <u>\$ 7,044,326</u>	 <u>\$ 5,058,257</u>

The dependence upon general revenues for governmental activities is apparent, with 71.81% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2003.

Governmental Activities – General and Program Revenues



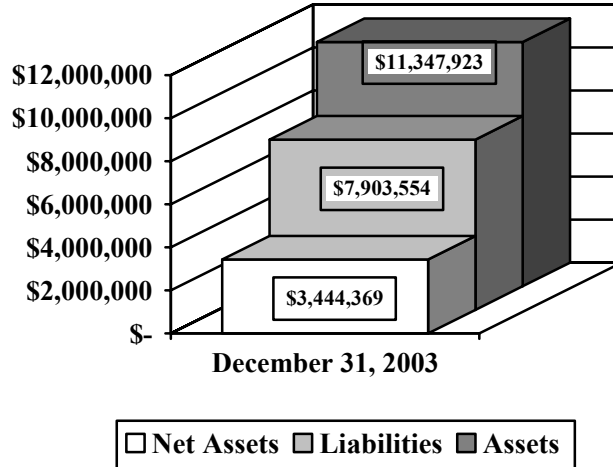
CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$5,003,283, general revenues of \$145,528 and expenses of \$4,505,273 for 2003. 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 \$1,386,418 which is \$561,164 below last year's total of \$1,947,582 (as restated). The December 31, 2002 fund balances have been restated as described in Note 3 to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

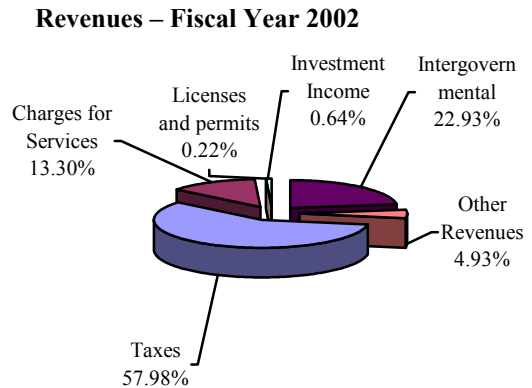
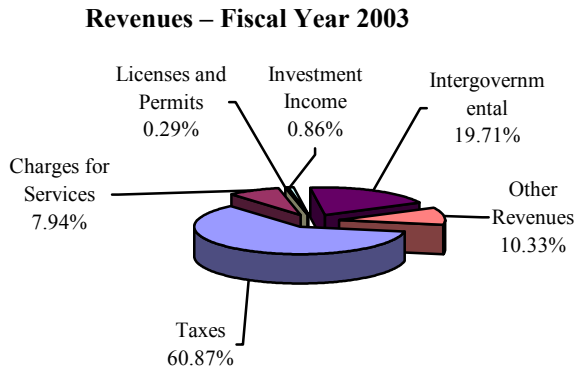
	<u>Fund Balances</u> 12/31/03	<u>Fund Balances</u> 12/31/02	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 155,310	\$ 699,001	\$ (543,691)
Street	169,756	156,723	13,033
Other nonmajor governmental funds	<u>1,061,352</u>	<u>1,091,858</u>	<u>(30,506)</u>
Total	<u>\$ 1,386,418</u>	<u>\$ 1,947,582</u>	<u>\$ (561,164)</u>

General Fund

The City's general fund balance decreased \$543,691. The table that follows assists in illustrating the revenues of the general fund.

	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,658,757	\$ 2,463,187	7.94 %
Charges for services	346,679	565,265	(38.67) %
Licenses and permits	12,868	9,517	35.21 %
Fines and forfeitures	5,182	22,089	(76.54) %
Investment income	37,361	27,200	37.36 %
Contributions and donations	32,237	78,576	(58.97) %
Intergovernmental	860,965	974,246	(11.63) %
Other	<u>413,707</u>	<u>108,588</u>	280.99 %
Total	<u>\$ 4,367,756</u>	<u>\$ 4,248,668</u>	2.80 %

Tax revenue represents 60.46% of all general fund revenue. Tax revenue increased slightly by 7.94% over prior year. The increase in taxes revenue is due to an increase in the collections of municipal income taxes. The increase in investment income is due to aggressive management of the City's investment portfolio throughout the year.



CITY OF COSHOCTON, OHIO

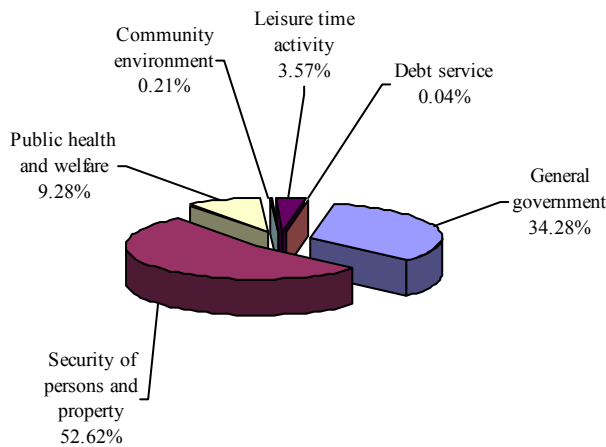
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED**

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

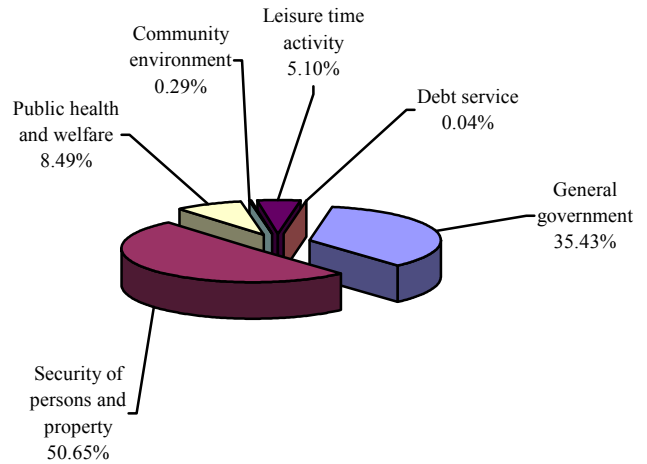
	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,683,762	\$ 1,887,194	(10.78) %
Security of persons and property	2,584,476	2,698,062	(4.21) %
Public health and welfare	455,600	452,425	0.70 %
Community environment	10,346	15,392	(32.78) %
Leisure time activity	175,163	271,709	(35.53) %
Debt service	<u>2,100</u>	<u>2,275</u>	(7.69) %
 Total	 <u>\$ 4,911,447</u>	 <u>\$ 5,327,057</u>	 (7.80) %

The only increase was in the area of public health and welfare. The City reduced total expenditures by 7.80%. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit cuts.

Expenditures - Fiscal Year 2003



Expenditures - Fiscal Year 2002



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 \$117,414 from \$5,096,318 to \$5,213,732. Actual revenues of \$4,543,428 were less than final budgeted revenues by \$458,131. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$294,894 lower than the final budgeted amounts.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
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 2003, the City had \$9,133,513 (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, \$3,476,636 was reported in governmental activities and \$5,656,877 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2003 balances compared to 2002:

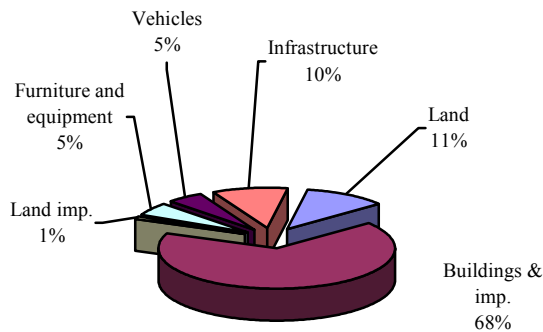
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 398,168	\$ 398,168	\$ 34,500	\$ 34,500	\$ 432,668	\$ 432,668
Land improvements	32,873	-	45,127	46,852	78,000	46,852
Buildings and improvements	2,328,820	2,414,959	2,567,495	2,705,690	4,896,315	5,120,649
Furniture and equipment	183,160	140,606	352,589	336,157	535,749	476,763
Vehicles	174,238	315,878	70,894	35,430	245,132	351,308
Infrastructure	359,377	-	-	-	359,377	-
Water and sewer lines	-	-	2,034,361	1,421,791	2,034,361	1,421,791
Construction in progress	-	-	551,911	-	551,911	-
Totals	<u>\$ 3,476,636</u>	<u>\$ 3,269,611</u>	<u>\$ 5,656,877</u>	<u>\$ 4,580,420</u>	<u>\$ 9,133,513</u>	<u>\$ 7,850,031</u>

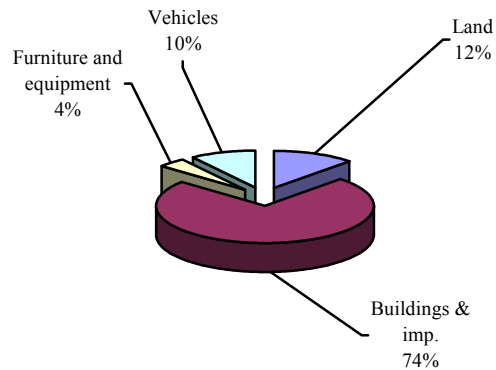
CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

Capital Assets - Governmental Activities 2003



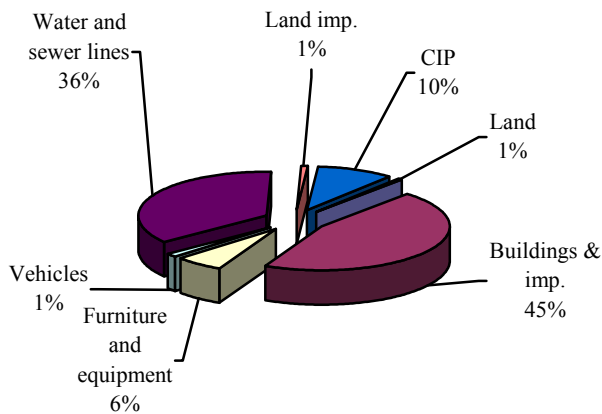
Capital Assets - Governmental Activities 2002



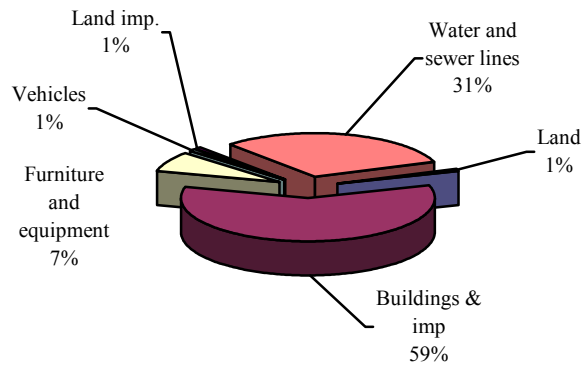
The City's largest capital asset category is buildings and improvements. The net book value of the City's buildings and improvements (cost less accumulated depreciation) represents approximately 68% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

Capital Assets - Business-Type Activities 2003



Capital Assets - Business-Type Activities 2002



The City's second 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 36% of the City's total business-type capital assets.

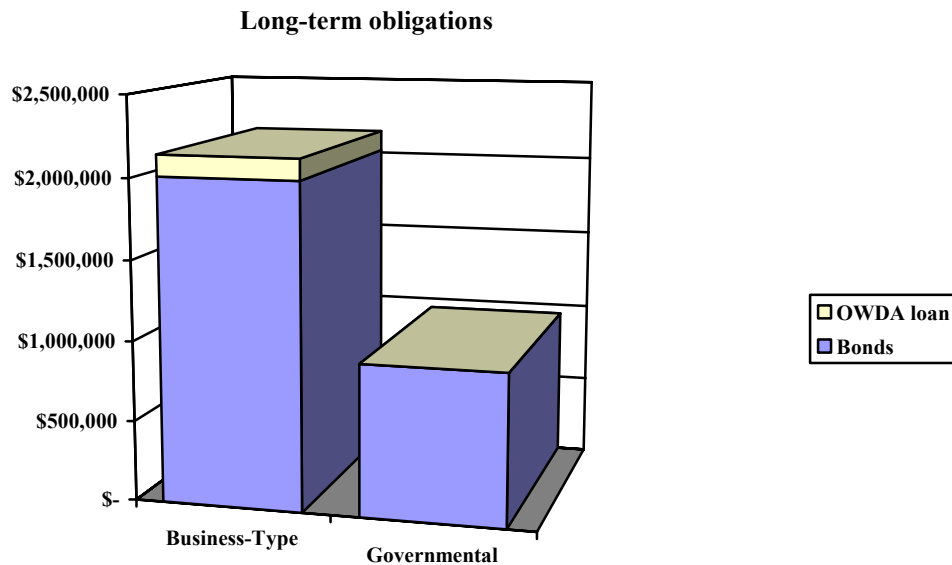
CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
UNAUDITED

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

	Governmental Activities	
	<u>2003</u>	<u>2002</u>
Special assessment bonds	\$ 60,000	\$ 80,000
General obligation bonds	<u>880,000</u>	<u>1,005,000</u>
Total long-term obligations	<u>\$ 940,000</u>	<u>\$1,085,000</u>
	Business-type Activities	
	<u>2003</u>	<u>2002</u>
Revenue bonds	2,015,000	2,390,000
OWDA loan	<u>130,652</u>	<u>-</u>
Total long-term obligations	<u>\$2,145,652</u>	<u>\$2,390,000</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, 2003
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.

The average unemployment rate for Coshocton County in 2003 was 9.9% compared to the 5.6% State of Ohio average. The City Auditor anticipates the 2003 rate to continue through 2004. 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, 2003

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,252,191	\$ 5,099,047	\$ 6,351,238
Receivables (net of allowances for uncollectibles):			
Income taxes	598,233	-	598,233
Property and other taxes	561,127	-	561,127
Accounts	18,002	548,006	566,008
Accrued interest	3,823	-	3,823
Special assessments	94,442	-	94,442
Internal balances	20,917	(20,917)	-
Due from other governments	630,626	-	630,626
Deferred charges	-	64,910	64,910
Capital assets:			
Land and construction in progress	398,168	586,411	984,579
Depreciable capital assets, net	3,078,468	5,070,466	8,148,934
Total capital assets	<u>3,476,636</u>	<u>5,656,877</u>	<u>9,133,513</u>
 Total assets	 <u>6,655,997</u>	 <u>11,347,923</u>	 <u>18,003,920</u>
Liabilities:			
Accounts payable	104,781	134,064	238,845
Accrued wages and benefits	46,432	22,798	69,230
Due to other governments	152,009	49,936	201,945
Deferred revenue	485,986	-	485,986
Accrued interest payable	5,861	80,877	86,738
Claims payable	162,344	-	162,344
Note payable	-	5,090,000	5,090,000
Judgements payable	-	191,070	191,070
Long-term liabilities:			
Due within one year	247,697	247,079	494,776
Due in more than one year	1,215,673	2,087,730	3,303,403
 Total liabilities	 <u>2,420,783</u>	 <u>7,903,554</u>	 <u>10,324,337</u>
Net assets:			
Invested in capital assets, net of related debt	2,531,218	3,511,225	6,042,443
Restricted for:			
Capital projects	228,494	-	228,494
Debt service	173,200	-	173,200
Perpetual care:			
Expendable	105,240	-	105,240
Nonexpendable	250,000	-	250,000
Transportation projects	468,006	-	468,006
Other purposes	361,873	-	361,873
Unrestricted	117,183	(66,856)	50,327
 Total net assets	 <u>\$ 4,235,214</u>	 <u>\$ 3,444,369</u>	 <u>\$ 7,679,583</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,857,258	\$ 254,696	\$ -	\$ -
Security of persons and property.	2,833,821	-	-	-
Public health and welfare	773,589	508,874	-	-
Transportation	788,456	-	488,487	180,168
Community environment.	10,646	630	-	-
Leisure time activity.	261,971	122,109	-	-
Urban redevelopment and housing	471,858	-	431,105	-
Interest and fiscal charges.	46,727	-	-	-
Total governmental activities	7,044,326	886,309	919,592	180,168
Business-type Activities:				
Water	2,637,463	2,375,574	-	645,764
Sewer	1,382,204	1,278,262	-	176,936
Nonmajor:				
Refuse.	485,606	526,747	-	-
Total business-type activities	4,505,273	4,180,583	-	822,700
Total primary government.	\$ 11,549,599	\$ 5,066,892	\$ 919,592	\$ 1,002,868

General Revenues:

Property taxes levied for:	
General purposes.	
Fire pension.	
Income taxes levied for:	
General purposes.	
Special revenue	
Debt service	
Capital projects	
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
\$ (1,602,562)	\$ -	\$ (1,602,562)
(2,833,821)	-	(2,833,821)
(264,715)	-	(264,715)
(119,801)	-	(119,801)
(10,016)	-	(10,016)
(139,862)	-	(139,862)
(40,753)	-	(40,753)
(46,727)	-	(46,727)
<u>(5,058,257)</u>	<u>-</u>	<u>(5,058,257)</u>
-	383,875	383,875
-	72,994	72,994
-	41,141	41,141
<u>-</u>	<u>498,010</u>	<u>498,010</u>
<u>(5,058,257)</u>	<u>498,010</u>	<u>(4,560,247)</u>
411,439	-	411,439
48,915	-	48,915
2,221,839	-	2,221,839
394,684	-	394,684
168,000	-	168,000
95,584	-	95,584
821,979	-	821,979
57,109	-	57,109
460,687	145,528	606,215
<u>4,680,236</u>	<u>145,528</u>	<u>4,825,764</u>
(378,021)	643,538	265,517
<u>4,613,235</u>	<u>2,800,831</u>	<u>7,414,066</u>
<u>\$ 4,235,214</u>	<u>\$ 3,444,369</u>	<u>\$ 7,679,583</u>

CITY OF COSHOCTON, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 46,784	\$ 164,178	\$ 1,004,925	\$ 1,215,887
Receivables (net of allowance for uncollectibles):				
Income taxes	463,630	59,824	74,779	598,233
Property and other taxes	501,335	-	59,792	561,127
Accounts	12,600	-	5,402	18,002
Accrued interest	3,451	-	372	3,823
Special assessments	-	-	94,442	94,442
Due from other governments	287,838	240,054	102,734	630,626
	<u>\$ 1,315,638</u>	<u>\$ 464,056</u>	<u>\$ 1,342,446</u>	<u>\$ 3,122,140</u>
Total assets				
	<u>\$ 1,315,638</u>	<u>\$ 464,056</u>	<u>\$ 1,342,446</u>	<u>\$ 3,122,140</u>
Liabilities:				
Accounts payable	\$ 25,845	\$ 28,497	\$ 50,439	\$ 104,781
Accrued wages and benefits	37,077	8,224	1,131	46,432
Compensated absences payable	3,263	1,922	-	5,185
Due to other governments	132,836	13,967	5,206	152,009
Deferred revenue	961,307	241,690	224,318	1,427,315
	<u>1,160,328</u>	<u>294,300</u>	<u>281,094</u>	<u>1,735,722</u>
Total liabilities				
	<u>1,160,328</u>	<u>294,300</u>	<u>281,094</u>	<u>1,735,722</u>
Fund Balances:				
Reserved for encumbrances	-	4,030	154,982	159,012
Reserved for unclaimed monies	2,149	-	-	2,149
Reserved for perpetual care	-	-	250,000	250,000
Unreserved, undesignated, reported in:				
General fund	153,161	-	-	153,161
Special revenue funds	-	165,726	279,141	444,867
Debt service fund	-	-	84,619	84,619
Capital projects funds	-	-	187,370	187,370
Permanent fund	-	-	105,240	105,240
	<u>155,310</u>	<u>169,756</u>	<u>1,061,352</u>	<u>1,386,418</u>
Total fund balances				
	<u>155,310</u>	<u>169,756</u>	<u>1,061,352</u>	<u>1,386,418</u>
Total liabilities and fund balances	<u>\$ 1,315,638</u>	<u>\$ 464,056</u>	<u>\$ 1,342,446</u>	<u>\$ 3,122,140</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, 2003

Total governmental fund balances		\$ 1,386,418
<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.		3,476,636
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 77,758	
Income taxes	328,594	
Investment income	2,737	
Special assessments	94,442	
Intergovernmental revenues	<u>437,798</u>	
Total		941,329
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 \$20,917, are:		(105,123)
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	(5,861)	
Special assessment bonds	(60,000)	
General obligation bonds	(880,000)	
Compensated absences	(512,767)	
Capital lease payable	<u>(5,418)</u>	
		<u>(1,464,046)</u>
Net assets of governmental activities		<u>\$ 4,235,214</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, 2003

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,272,405	\$ 409,666	\$ 272,948	\$ 2,955,019
Property and other taxes	386,352	-	45,923	432,275
Charges for services	346,679	-	460,123	806,802
Licenses and permits	12,868	-	13,205	26,073
Fines and forfeitures	5,182	-	48,242	53,424
Intergovernmental	860,965	429,736	490,281	1,780,982
Special assessments	-	-	23,902	23,902
Investment income	37,361	450	16,561	54,372
Contributions and donations	32,237	-	-	32,237
Other	413,707	3,230	11,523	428,460
Total revenues	<u>4,367,756</u>	<u>843,082</u>	<u>1,382,708</u>	<u>6,593,546</u>
Expenditures:				
Current:				
General government	1,683,762	-	80,546	1,764,308
Security of persons and property	2,584,476	-	72,459	2,656,935
Public health and welfare	455,600	-	307,310	762,910
Transportation	-	830,049	33,622	863,671
Community environment	10,346	-	300	10,646
Leisure time activity	175,163	-	106,133	281,296
Urban redevelopment and housing	-	-	471,858	471,858
Capital outlay	-	-	149,066	149,066
Debt service:				
Principal retirement	1,556	-	145,000	146,556
Interest and fiscal charges	544	-	46,920	47,464
Total expenditures	<u>4,911,447</u>	<u>830,049</u>	<u>1,413,214</u>	<u>7,154,710</u>
Net change in fund balances	(543,691)	13,033	(30,506)	(561,164)
Fund balances at beginning of year (restated) .	<u>699,001</u>	<u>156,723</u>	<u>1,091,858</u>	<u>1,947,582</u>
Fund balances at end of year	<u>\$ 155,310</u>	<u>\$ 169,756</u>	<u>\$ 1,061,352</u>	<u>\$ 1,386,418</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, 2003

Net change in fund balances - total governmental funds	\$ (561,164)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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 capital outlays (\$464,976) exceeded depreciation expense (\$257,951) in the current period.	207,025
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(107,409)
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.	146,556
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	737
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.	(1,282)
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 of \$20,917 is allocated among the governmental activities.	(62,484)
Change in net assets of governmental activities	\$ (378,021)

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, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 2,735,086	\$ 2,462,961	\$ 2,243,499	\$ (219,462)
Property and other taxes	486,559	486,559	430,737	(55,822)
Charges for services	422,642	380,592	346,679	(33,913)
Licenses and permits	15,688	14,127	12,868	(1,259)
Fines and forfeitures	4,495	4,048	3,687	(361)
Intergovernmental	1,212,414	1,091,787	994,503	(97,284)
Investment income	79,866	71,919	65,511	(6,408)
Contributions and donations	39,301	35,390	32,237	(3,153)
Other	504,356	454,176	413,707	(40,469)
Total revenues	5,500,407	5,001,559	4,543,428	(458,131)
Expenditures:				
Current:				
General government	1,712,159	1,831,072	1,712,975	118,097
Security of persons and property	2,713,264	2,639,054	2,560,179	78,875
Public health and welfare	468,199	542,249	461,451	80,798
Community environment	14,786	15,647	10,198	5,449
Leisure time activity	187,910	185,710	174,035	11,675
Total expenditures	5,096,318	5,213,732	4,918,838	294,894
Net change in fund balance	404,089	(212,173)	(375,410)	(163,237)
Fund balance at beginning of year (restated) . . .	369,213	369,213	369,213	-
Prior year encumbrances appropriated	48,448	48,448	48,448	-
Fund balance at end of year	\$ 821,750	\$ 205,488	\$ 42,251	\$ (163,237)

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, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 450,000	\$ 450,000	\$ 436,055	\$ (13,945)
Intergovernmental	349,500	349,500	425,287	75,787
Investment income	400	400	450	50
Other	100	100	3,230	3,130
Total revenues	<u>800,000</u>	<u>800,000</u>	<u>865,022</u>	<u>65,022</u>
Expenditures:				
Current:				
Transportation	<u>852,396</u>	<u>886,589</u>	<u>824,873</u>	<u>61,716</u>
Total expenditures	<u>852,396</u>	<u>886,589</u>	<u>824,873</u>	<u>61,716</u>
Net change in fund balance	(52,396)	(86,589)	40,149	126,738
Fund balance at beginning of year	113,008	113,008	113,008	-
Prior year encumbrances appropriated	<u>6,991</u>	<u>6,991</u>	<u>6,991</u>	<u>-</u>
Fund balance at end of year	<u>\$ 67,603</u>	<u>\$ 33,410</u>	<u>\$ 160,148</u>	<u>\$ 126,738</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2003

	Business-type Activities -Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 4,484,565	\$ 517,225	\$ 97,257	\$ 5,099,047
Receivables (net of allowance for uncollectibles):				
Accounts	231,076	207,800	109,130	548,006
Deferred charges	-	64,910	-	64,910
Total current assets	<u>4,715,641</u>	<u>789,935</u>	<u>206,387</u>	<u>5,711,963</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	586,411	-	-	586,411
Depreciable capital assets, net	2,653,407	2,417,059	-	5,070,466
Total capital assets	<u>3,239,818</u>	<u>2,417,059</u>	<u>-</u>	<u>5,656,877</u>
Total noncurrent assets.	<u>3,239,818</u>	<u>2,417,059</u>	<u>-</u>	<u>5,656,877</u>
Total assets	<u>7,955,459</u>	<u>3,206,994</u>	<u>206,387</u>	<u>11,368,840</u>
Liabilities:				
Current liabilities:				
Accounts payable.	96,083	37,981	-	134,064
Accrued wages and benefits	5,132	17,666	-	22,798
Compensated absences	34,457	22,622	-	57,079
Due to other governments	31,052	18,884	-	49,936
Claims payable.	-	-	-	-
Note payable	5,090,000	-	-	5,090,000
Judgements payable	191,070	-	-	191,070
Current portion of revenue bonds	-	190,000	-	190,000
Accrued interest payable.	74,433	6,444	-	80,877
Total current liabilities	<u>5,522,227</u>	<u>293,597</u>	<u>-</u>	<u>5,815,824</u>
Long-term liabilities:				
Revenue bonds	-	1,706,211	-	1,706,211
OWDA loans	130,652	-	-	130,652
Compensated absences	151,441	99,426	-	250,867
Total long-term liabilities	<u>282,093</u>	<u>1,805,637</u>	<u>-</u>	<u>2,087,730</u>
Total liabilities	<u>5,804,320</u>	<u>2,099,234</u>	<u>-</u>	<u>7,903,554</u>
Net assets:				
Invested in capital assets, net of related debt.	3,109,166	402,059	-	3,511,225
Unrestricted	(958,027)	705,701	206,387	(45,939)
Total net assets	<u>\$ 2,151,139</u>	<u>\$ 1,107,760</u>	<u>\$ 206,387</u>	<u>3,465,286</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>(20,917)</u>
Net assets of business-type activities				<u>\$ 3,444,369</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental
Activities -
Internal
Service Fund**

\$ 36,304

-

-

36,304

-

-

-

-

36,304

-

-

-

-

162,344

-

-

-

-

162,344

-

-

-

-

162,344

-

(126,040)

\$ (126,040)

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Operating revenues:				
Charges for services	\$ 2,371,667	\$ 1,278,262	\$ 526,747	\$ 4,176,676
Other	3,907	-	-	3,907
Total operating revenues	2,375,574	1,278,262	526,747	4,180,583
Operating expenses:				
Personal services	932,755	537,159	-	1,469,914
Contract services	608,895	252,390	444,606	1,305,891
Materials and supplies	813,305	393,915	41,000	1,248,220
Claims	-	-	-	-
Other	30,177	-	-	30,177
Depreciation	140,647	86,962	-	227,609
Total operating expenses	2,525,779	1,270,426	485,606	4,281,811
Operating income (loss)	(150,205)	7,836	41,141	(101,228)
Nonoperating revenues (expenses):				
Intergovernmental	486,864	-	-	486,864
Other nonoperating revenue	145,528	-	-	145,528
Interest expense and fiscal charges	(98,355)	(104,190)	-	(202,545)
Total nonoperating revenues (expenses)	534,037	(104,190)	-	429,847
Income (loss) before contributions	383,832	(96,354)	41,141	328,619
Capital contributions	158,900	176,936	-	335,836
Changes in net assets	542,732	80,582	41,141	664,455
Net assets at beginning of year (restated)	1,608,407	1,027,178	165,246	
Net assets at end of year	\$ 2,151,139	\$ 1,107,760	\$ 206,387	
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				(20,917)
Changes in net assets of business-type activities				<u>\$ 643,538</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental
Activities -
Internal
Service Fund**

\$ 1,266,227
8,677

1,274,904

-
170,047
-
1,188,258
-

-

1,358,305

(83,401)

-
-

-

-

(83,401)

-

(83,401)

(42,639)

\$ (126,040)

CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 2,180,899	\$ 1,266,163	\$ 529,154	\$ 3,976,216
Cash received from other operations	3,907	-	-	3,907
Cash payments for personal services	(937,693)	(521,781)	-	(1,459,474)
Cash payments for contract services	(615,557)	(214,258)	(444,606)	(1,274,421)
Cash payments for materials and supplies	(834,986)	(441,101)	(41,000)	(1,317,087)
Cash payments for claims	-	-	-	-
Cash payments for other expenses	(30,174)	-	-	(30,174)
Net cash provided by (used in) operating activities.	<u>(233,604)</u>	<u>89,023</u>	<u>43,548</u>	<u>(101,033)</u>
Cash flows from noncapital financing activities:				
Cash received from grants	<u>276,431</u>	<u>-</u>	<u>-</u>	<u>276,431</u>
Net cash provided by noncapital financing activities	<u>276,431</u>	<u>-</u>	<u>-</u>	<u>276,431</u>
Cash flows from capital and related financing activities:				
Capital contributions	158,900	176,936	-	335,836
Acquisition of capital assets	(916,697)	(176,936)	-	(1,093,633)
Principal retirement on revenue bonds	(185,000)	(190,000)	-	(375,000)
Principal retirement on loans	130,652	-	-	130,652
Principal retirement on notes	(4,900,000)	-	-	(4,900,000)
Proceeds of notes	5,090,000	-	-	5,090,000
Interest and fiscal charges	(110,958)	(83,500)	-	(194,458)
Net cash used in capital and related financing activities	<u>(733,103)</u>	<u>(273,500)</u>	<u>-</u>	<u>(1,006,603)</u>
Net increase (decrease) in cash and cash equivalents	(690,276)	(184,477)	43,548	(831,205)
Cash and cash equivalents at beginning of year (restated)	<u>5,174,841</u>	<u>701,702</u>	<u>53,709</u>	<u>5,930,252</u>
Cash and cash equivalents at end of year	<u>\$ 4,484,565</u>	<u>\$ 517,225</u>	<u>\$ 97,257</u>	<u>\$ 5,099,047</u>

**Governmental
Activities -
Internal
Service Fund**

\$ 1,266,227
8,677
-
(170,047)
-
(1,106,640)
-
(1,783)

-

-

-
-
-
-
-
-
-

-

(1,783)

38,087

\$ 36,304

- - continued

CITY OF COSHOCTON, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2003

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (150,205)	\$ 7,836	\$ 41,141	\$ (101,228)
Adjustments:				
Depreciation	140,647	86,962	-	227,609
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable.	28,162	(12,099)	2,407	18,470
(Decrease) in accounts payable	(20,297)	(10,926)	-	(31,223)
(Decrease) in contracts payable.	(12,824)			(12,824)
Increase (decrease) in accrued wages and benefits	(7,520)	8,750	-	1,230
(Decrease) in due to other governments.	(6,008)	(6,428)	-	(12,436)
Increase in compensated absences payable	13,371	14,928	-	28,299
(Decrease) in judgements payable	(218,930)	-	-	(218,930)
Increase in claims payable	-	-	-	-
	-	-	-	-
Net cash provided by (used in) operating activities	\$ (233,604)	\$ 89,023	\$ 43,548	\$ (101,033)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Governmental
Activities -
Internal
Service Fund**

\$ (83,401)

-

-

-

-

-

-

-

-

81,618

\$ (1,783)

CITY OF COSHOCTON, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2003

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 251,984	\$ 16,228
Cash in segregated accounts	-	7,607
Receivables:		
Accrued interest.	<u>2,501</u>	<u>-</u>
Total assets.	<u>254,485</u>	<u>23,835</u>
Liabilities:		
Undistributed monies.	<u>-</u>	<u>23,835</u>
Total liabilities	<u>-</u>	<u>\$ 23,835</u>
Net assets:		
Held in trust for other purposes	<u>254,485</u>	
Total net assets	<u>\$ 254,485</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, 2003

	<u>Private Purpose Trust</u>
Additions:	
Interest	<u>\$ 1,039</u>
Total additions	<u>1,039</u>
 Deductions:	
Benefits.	<u>2,242</u>
Total deductions	<u>2,242</u>
Changes in net assets	(1,203)
Net assets at beginning of year	<u>255,688</u>
Net assets at end of year	<u><u>\$ 254,485</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, 2003

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 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, 2003

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 2003, OMEGA received \$545 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, 2003

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 - 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:

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

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

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, 2003

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, 2003, but which were levied to finance year 2004 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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.

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 2003.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

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 Equivalents" on the financial statements.

During fiscal year 2003, 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, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amount to \$37,361 which includes \$36,626 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

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 date received. During fiscal year 2003, the City increased its capitalization threshold from \$1,000 to \$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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

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.

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.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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

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.

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. Contributions of Capital

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

Q. 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.

R. 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

S. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2002, there was no effect on fund balance as a result of implementing GASB Statement Nos. 37, 38 and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, the elimination of the internal service fund, and the conversion to the accrual basis of accounting.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - A certain fund has been reclassified from a nonexpendable trust fund to a permanent fund to reflect its intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2002. A restatement is also presented to include the intergovernmental payable previously reported in the general long-term obligations account group as a fund liability since it was due and payable at year-end. A restatement is also presented to report cash of the general fund which was previously reported in the Water fund.

	<u>General</u>	<u>Street</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance				
December 31, 2002	\$ 532,177	\$ 169,164	\$ 745,434	\$ 1,446,775
Fund reclassification	-	-	348,755	348,755
Intergovernmental payable	(88,409)	(13,705)	(2,374)	(104,488)
Cash adjustment	246,654	-	-	246,654
GASB Interpretation No. 6 adjustments	<u>8,579</u>	<u>1,264</u>	<u>43</u>	<u>9,886</u>
Restated fund balance January 1, 2003	<u>\$ 699,001</u>	<u>\$ 156,723</u>	<u>\$ 1,091,858</u>	<u>\$ 1,947,582</u>

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated fund balance January 1, 2003	\$ 1,947,582
GASB Statement No. 34 adjustments:	
Capital assets	3,269,611
Internal service fund	(42,639)
Long-term liabilities	(1,603,459)
Long-term (deferred assets)	1,048,738
Accrued interest payable	<u>(6,598)</u>
Governmental activities net assets, January 1, 2003	<u>\$ 4,613,235</u>

Business-type Activities - Restatement of Fund Equity - A prior period adjustment is required to report a change in the City's capital asset threshold from \$1,000 to \$5,000 and to correct errors and omissions in amounts previously reported. In addition, a prior period adjustment is required to remove cash pertaining to the general fund which was previously reported in the Water fund. These prior period adjustments had the following effect on fund equity as previously reported:

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total Enterprise Funds</u>
Fund equity at December 31, 2002	\$ 1,657,861	\$ 1,030,135	\$165,246	\$ 2,853,242
Adjustment for capital assets	197,200	(2,957)	-	194,243
Cash adjustment	(246,654)	-	-	(246,654)
Restated net assets at January 1, 2003	<u>\$ 1,608,407</u>	<u>\$ 1,027,178</u>	<u>\$165,246</u>	<u>\$ 2,800,831</u>

B. Fund Deficits

At December 31, 2003, the health insurance internal service fund had deficit fund balance in the amount of \$126,040. 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;

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 \$2,223,156 and the bank balance was \$2,372,842. Of the bank balance:

1. \$331,456 was covered by federal depository insurance; and

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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

2. \$2,041,386 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.

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	\$ 825,000	\$ 825,000	\$ 825,000
STAR Ohio	-	3,578,901	3,578,901
Total investments	<u>\$ 825,000</u>	<u>\$ 4,403,901</u>	<u>\$4,403,901</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	\$ 6,627,057	\$ -
Investments of the cash management pool:		
Repurchase agreements	(825,000)	825,000
STAR Ohio	(3,578,901)	3,578,901
GASB Statement No. 3	<u>\$ 2,223,156</u>	<u>\$4,403,901</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003, the outstanding judgements payable was \$191,070.

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, 2003 was \$2.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property tax	\$ 161,020,930
Public utility tangible personal property	6,456,530
Tangible personal property	<u>34,735,109</u>
Total assessed valuation	<u>\$ 202,212,569</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 6 - PROPERTY TAXES - (Continued)

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003. 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, 2003, 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, 2003, as well as intended to finance fiscal 2003 operations.

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

Governmental Activities:

Income taxes	\$ 598,233
Real and other taxes	561,127
Accounts	18,002
Accrued interest	3,823
Special assessments	94,442
Due from other governments	630,626

Business-type Activities:

Accounts	548,006
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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, 2003 was \$27,168.

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, fire debt service fund and the capital improvements capital projects fund.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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 depreciation in governmental activities, the change in capitalization threshold (See Note 2.I for detail) and due to the reporting of errors and omissions of capital asset classification, 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 2004 basic financial statements. Only governmental infrastructure capital assets acquired or constructed in 2003 are reflected in the basic financial statements for the fiscal year ended December 31, 2003.

	Balance		Restated
<u>Governmental Activities:</u>	<u>12/31/02</u>	<u>Adjustments</u>	<u>Balance</u>
			<u>12/31/02</u>
Land	\$ 328,067	\$ 70,101	\$ 398,168
Land improvements	549,325	(549,325)	-
Buildings and improvements	2,708,245	572,234	3,280,479
Furniture and equipment	875,981	(239,953)	636,028
Vehicles	1,548,126	(643,200)	904,926
Less: accumulated depreciation	<u>-</u>	<u>(1,949,990)</u>	<u>(1,949,990)</u>
Total	<u>\$ 6,009,744</u>	<u>\$ (2,740,133)</u>	<u>\$ 3,269,611</u>
<u>Business-type Activities:</u>			
Land	\$ -	\$ 34,500	\$ 34,500
Land improvements	45,835	1,017	46,852
Buildings and improvements	5,143,550	118,723	5,262,273
Furniture and equipment	536,762	2,864,935	3,401,697
Vehicles	5,197,291	(4,907,612)	289,679
Water and sewer lines	10,036,527	1,298,719	11,335,246
Less: accumulated depreciation	<u>(16,573,788)</u>	<u>783,961</u>	<u>(15,789,827)</u>
Total	<u>\$ 4,386,177</u>	<u>\$ 194,243</u>	<u>\$ 4,580,420</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

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

<u>Governmental Activities:</u>	Restated Balance 12/31/02	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/03
<i>Capital assets, not being depreciated:</i>				
Land	\$ 398,168	\$ -	\$ -	\$ 398,168
Total capital assets, not being depreciated	<u>398,168</u>	<u>-</u>	<u>-</u>	<u>398,168</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	-	32,873	-	32,873
Buildings and improvements	3,280,479	-	-	3,280,479
Furniture and equipment	636,028	72,726	-	708,754
Vehicles	904,926	-	-	904,926
Infrastructure	<u>-</u>	<u>359,377</u>	<u>-</u>	<u>359,377</u>
Total capital assets, being depreciated	<u>4,821,433</u>	<u>464,976</u>	<u>-</u>	<u>5,286,409</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	-	-	-	-
Buildings and improvements	(865,520)	(86,139)	-	(951,659)
Furniture and equipment	(495,422)	(30,172)	-	(525,594)
Vehicles	(589,048)	(141,640)	-	(730,688)
Infrastructure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(1,949,990)</u>	<u>(257,951)</u>	<u>-</u>	<u>(2,207,941)</u>
Total capital assets, being depreciated, net	<u>2,871,443</u>	<u>207,025</u>	<u>-</u>	<u>3,078,468</u>
Governmental activities capital assets, net	<u>\$ 3,269,611</u>	<u>\$ 207,025</u>	<u>\$ -</u>	<u>\$ 3,476,636</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Restated Balance 12/31/02	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/03
<i>Capital assets, not being depreciated:</i>				
Land	\$ 34,500	\$ -	\$ -	\$ 34,500
Construction in progress	<u>-</u>	<u>551,911</u>	<u>-</u>	<u>551,911</u>
Total capital assets, not being depreciated	<u>34,500</u>	<u>551,911</u>	<u>-</u>	<u>586,411</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	3,401,697	44,700	-	3,446,397
Vehicles	289,679	74,974	-	364,653
Infrastructure	<u>11,335,246</u>	<u>632,481</u>	<u>-</u>	<u>11,967,727</u>
Total capital assets, being depreciated	<u>20,335,747</u>	<u>752,155</u>	<u>-</u>	<u>21,087,902</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	-	(1,725)	-	(1,725)
Buildings and improvements	(2,556,583)	(138,195)	-	(2,694,778)
Furniture and equipment	(3,065,540)	(28,268)	-	(3,093,808)
Vehicles	(254,249)	(39,510)	-	(293,759)
Infrastructure	<u>(9,913,455)</u>	<u>(19,911)</u>	<u>-</u>	<u>(9,933,366)</u>
Total accumulated depreciation	<u>(15,789,827)</u>	<u>(227,609)</u>	<u>-</u>	<u>(16,017,436)</u>
Total capital assets, being depreciated, net	<u>4,545,920</u>	<u>524,546</u>	<u>-</u>	<u>5,070,466</u>
Business-type activities capital assets, net	<u>\$ 4,580,420</u>	<u>\$ 1,076,457</u>	<u>\$ -</u>	<u>\$ 5,656,877</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 21,621
Security of persons and property	126,764
Public health and welfare	13,344
Transportation	87,935
Leisure time activity	<u>8,287</u>
 Total depreciation expense - governmental activities	 <u>\$ 257,951</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 2003 amounted to \$1,556 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, 2003:

	<u>Principal and Interest</u>
2004	\$ 2,100
2005	2,100
2006	<u>2,100</u>
 Total minimum lease payments	 6,300
Less: amount representing interest	<u>(882)</u>
 Present value of net minimum lease payments	 <u>\$ 5,418</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003, the liability for unpaid compensated absences was \$825,898 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

The balance of the City's governmental activities long-term obligations at December 31, 2002 has been restated. Pension obligations of \$104,488 at December 31, 2002 are not reported as a component of governmental activities long-term obligations as they are due and payable at year-end and are reported as a fund liability. The effect on the total governmental activities long-term obligations at January 1, 2003 was a decrease of \$104,488 from \$1,707,947 to \$1,603,459. During the fiscal year 2003, the following changes occurred in the City's long-term obligations:

	Restated Balance <u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/03</u>	Amounts Due in <u>One Year</u>
<u>Governmental Activities:</u>					
<u>General obligation bonds:</u>					
1998 Fire Station					
various interest rates	\$ 1,005,000	\$ -	\$ (125,000)	\$ 880,000	\$ 130,000
<u>Special assessment bond:</u>					
1986 Downtown Street					
Series A - 7 3/8%	80,000	-	(20,000)	60,000	20,000
Total - bonds	<u>1,085,000</u>	<u>-</u>	<u>(145,000)</u>	<u>940,000</u>	<u>150,000</u>
<u>Other long-term obligations:</u>					
Compensated absences	511,485	124,193	(117,726)	517,952	96,004
Capital lease obligation	<u>6,974</u>	<u>-</u>	<u>(1,556)</u>	<u>5,418</u>	<u>1,693</u>
Total other long-term obligations	<u>518,459</u>	<u>124,193</u>	<u>(119,282)</u>	<u>523,370</u>	<u>97,697</u>
Total governmental activities					
long-term obligations	<u>\$ 1,603,459</u>	<u>\$ 124,193</u>	<u>\$ (264,282)</u>	<u>\$ 1,463,370</u>	<u>\$ 247,697</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-type Activities:</u>	Restated Balance 12/31/02	<u>Additions</u>	<u>Reductions</u>	Balance 12/31/03	Amounts Due in <u>One Year</u>
<u>Revenue Bonds</u>					
2001 Sewer System Improvement 3.25% to 4.25%	\$ 2,205,000	\$ -	\$ (190,000)	\$ 2,015,000	\$190,000
1991 Water System Improvement 3.0% to 5.15%	<u>185,000</u>	<u>-</u>	<u>(185,000)</u>	<u>-</u>	<u>-</u>
Total - revenue bonds	<u>2,390,000</u>	<u>-</u>	<u>(375,000)</u>	<u>2,015,000</u>	<u>190,000</u>
<u>Other long-term obligations</u>					
Compensated absences	279,647	92,189	(63,890)	307,946	57,079
OWDA loan	<u>-</u>	<u>130,652</u>	<u>-</u>	<u>130,652</u>	<u>-</u>
Total other long-term obligations	<u>279,647</u>	<u>222,841</u>	<u>(63,890)</u>	<u>438,598</u>	<u>57,079</u>
Total business-type activities long-term obligations	<u>\$ 2,669,647</u>	<u>\$ 222,841</u>	<u>\$ (438,890)</u>	2,453,598	<u>\$247,079</u>
Less: unamortized deferred charges on refunding				<u>(118,789)</u>	
Total reported on the Statement of Net Assets				<u>\$ 2,334,809</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, 2003

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

During 2003, 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, 2003, the City has outstanding borrowings of \$130,652. As of December 31, 2003, 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.

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.

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$20,436,939. Principal and interest requirements to retire the City's bonds outstanding at December 31, 2003 were:

Year	General Obligation Bonds			Special Assessment Bond		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 130,000	\$ 36,150	\$ 166,150	\$ 20,000	\$ 4,425	\$ 24,425
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	160,000	6,800	166,800	-	-	-
Total	<u>\$ 880,000</u>	<u>\$ 132,355</u>	<u>\$ 1,012,355</u>	<u>\$ 60,000</u>	<u>\$ 8,850</u>	<u>\$ 68,850</u>

Year	Revenue Bonds		
	Principal	Interest	Total
2004	\$ 190,000	\$ 77,325	\$ 267,325
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 - 2012	<u>975,000</u>	<u>102,458</u>	<u>1,077,458</u>
Total	<u>\$ 2,015,000</u>	<u>\$ 418,363</u>	<u>\$ 2,433,363</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 13 - SHORT-TERM OBLIGATIONS

A summary of the note transactions for the year ended December 31, 2003, follows:

	<u>Outstanding</u> <u>12/31/2002</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2003</u>
<u>Business-Type Activities:</u>				
Water Note - 2.07%	\$ 4,900,000	\$ -	\$ (4,900,000)	\$ -
Water Note - 1.75%	<u>-</u>	<u>5,090,000</u>	<u>-</u>	<u>5,090,000</u>
Total	<u>\$ 4,900,000</u>	<u>\$ 5,090,000</u>	<u>\$ (4,900,000)</u>	<u>\$ 5,090,000</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, 2003 matures in February 2004.

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 2003, 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	\$ 50,000
	Umbrella Liability	1,000,000
	Comprehensive Crime	10,000
	Commercial Inland Marine	986,470
	Wrongful Acts	1,000,000
	EDP	177,548
	Property	23,253,421
	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, 2003

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 \$162,344 reported in the internal service fund at December 31, 2003, 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 2001, 2002, and 2003 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2001	\$ 71,809	\$ 718,557	\$ (694,377)	\$ 95,989
2002	95,989	880,403	(895,666)	80,726
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, 2003

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 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 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. 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, 2003, 2002, and 2001 were \$191,817, \$204,361, and \$299,226, respectively; 86.60% has been contributed for 2003 and 100% for 2002 and 2001. \$25,700, representing the unpaid contribution for 2003, 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, 2003, 2002, and 2001 were \$121,421, \$117,705, and \$159,054, respectively; 73.59% has been contributed for 2003 and 100% for the years 2002 and 2001. \$32,072, representing the unpaid contributions for 2003, 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 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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 \$112,173.

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, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively, at December 31, 2002 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 364,881.

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.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2003, Comprehensive Annual Financial Report.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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 2002 and 2003, 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, 2002 (the latest information available), is 13,527 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for firefighters was \$57,930. OP&F's total health care expense for the year ending December 31, 2002 (the latest information available), was \$141,028 million, which was net of member contributions of \$12.623 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 are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as 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, 2003

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

	General	Street
Budget basis	\$ (375,410)	\$ 40,149
Net adjustment for revenue accruals	(175,672)	(21,940)
Net adjustment for expenditure accruals	2,858	(9,206)
Adjustment for encumbrances	4,533	4,030
GAAP basis	\$ (543,691)	\$ 13,033

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, 2003.

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 2004, the City passed an ordinance to issue \$2,000,000 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 \$5,090,000 outstanding notes which matured in February 2004 (See Note 13).

NOTE 20 – FINANCIAL SHORTFALL

This City has experienced a financial shortfall which has resulted in near deficit spending in the General Fund at December 31, 2003. To alleviate the financial shortfall the City has established a citizens committee, to develop a strategy to stabilize its cash shortfall in the aforementioned fund. This strategy includes, but is not limited to, renegotiating management's health care package, reallocating administrative expenses, redistributing income tax revenue, and reducing capital expenditures. Additionally, the City has not replaced several employees who recently separated from the City. The City believes that these cost cutting measures will aid in stabilizing the City's financial situation.

**CITY OF COSHOCTON
COSHOCTON COUNTY**

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

<u>FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>PASS THROUGH ENTITY NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>RECEIPTS</u>	<u>EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> (Passed through the State Department of Development)				
Community Development Block Grants	A-F-02-109-1	14.228	\$ 64,500	\$ 53,831
	A-C-01-109-1		44,000	46,966
	A-C-02-109-1		<u>116,936</u>	<u>114,323</u>
Total Community Development Block Grants			225,436	215,120
Home Improvement Partnership Program	A-C-01-109-2	14.239	91,731	117,415
	A-C-02-109-2		<u>14,632</u>	<u>51,545</u>
Total U.S. Department of Housing and Urban Developer			<u>\$ 331,799</u>	<u>\$ 384,080</u>

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

**CITY OF COSHOCTON
COSHOCTON COUNTY**

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households. The U.S. Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as an expenditure of the Community Development Block Grant program on the accompanying Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as expenditures on the Schedule.

The loans are collateralized by mortgages on the property and by promissory notes. In addition, all revolving loan funds are secured by personal guarantees, to the greatest extent possible. At December 31, 2003, there were no loans outstanding.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 3, 2004 in which we noted the city is experiencing financial difficulty. We also noted the City adopted Governmental Accounting Standard Board Statement No. 34, increased its capitalization threshold for capital assets from \$1,000 to \$5,000, corrected errors in capital assets and reclassified cash during the year ended December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance that we must report under *Government Auditing Standards*.

However, we noted other immaterial instances of noncompliance that we have reported to City's management in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

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

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However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 3, 2004.

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

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

Betty Montgomery
Auditor of State

September 3, 2004



Auditor of State Betty Montgomery

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

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

To the Members of City Council:

Compliance

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

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

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

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2003-002.

We also noted another instance of noncompliance that does not require inclusion in this report that we have reported to management of the City in a separate letter dated September 3, 2004.

Internal Control Over Compliance

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

We noted a certain matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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



Betty Montgomery
Auditor of State

September 3, 2004

**CITY OF COSHOCTON
COSHOCTON COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Federal Reportable Condition

Finding Number	2003-001
CFDA Title	Community Development Block Grant/Entitlement Grant
CFDA Number	14.228
Pass Through Entity Number/Year	Ohio Department of Development
Federal Oversight Agency	U.S. Department of Housing and Urban Development

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.

Finding Number	2003-001 (Continued)
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The City currently maintains all CDBG, HOME and Program Income financial records in one fund on the City ledgers. In order to more accurately account for and monitor grant activity, it is recommended that the CDBG grant(s) be accounted for in a separate fund, the HOME grant(s) be accounted for in a separate fund, the CDBG program income fund be accounted for in a separate fund, and the HOME grant program income be accounted for in a separate fund. This will allow for better monitoring of grant activity, cash management monitoring, and reporting of all financial activity of the City's grants.

Federal Questioned Costs

Finding Number	2003-002
CFDA Title	Community Development Block Grant/Entitlement Grant
CFDA Number	14.228
Pass Through Entity Number/Year	Ohio Department of Development
Federal Oversight Agency	U.S. Department of Housing and Urban Development

24 CFR Section 570.200 require that all activities undertaken must meet one of three national objectives of the CDBG program, i.e., benefit low and moderate-income persons, eliminate slums or blight, or meet community development needs having a particular urgency. 24 CFR Sections 570.201 through 570.206 further provide that CDBG funds are to be used for the following activities: (1) the acquisition of real property; (2) the acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, including removal of architectural barriers that restrict the mobility and accessibility of elderly or severely disabled persons; (3) clearance, demolition, and removal of buildings and improvements; (4) payments to housing owners for losses of rental income incurred in temporarily holding housing for the relocated; (5) disposition of real property acquired under this program; (6) provision of public services (subject to limitations contained in the CDBG regulations); (7) payment of the non-Federal share for another grant program that is part of the assisted activities; (8) interim assistance where immediate action is needed prior to permanent improvements or to alleviate emergency conditions threatening public health and safety; (9) payment to complete a Title I Federal Urban Renewal project; (10) relocation assistance; (11) planning activities; (12) administrative costs; (13) acquisition, construction, reconstruction, rehabilitation, or installation of commercial or industrial buildings; (14) assistance to community-based development organizations; (15) activities related to privately-owned utilities; (16) assistance to private, for-profit businesses, when appropriate to carry out an economic development project; (17) construction of housing assisted under Section 17 of the United States Housing Act of 1937; (18) reconstruction of properties; (19) direct home ownership assistance to facilitate and expand home ownership; (20) technical assistance to public or private entities for capacity building (exempt for the planning/administration cap); (21) housing services related to HOME funded activities; (22) assistance to institutions of higher education to carry out eligible activities; (23) assistance to public and private entities (including for-profits) to assist micro-enterprises; (24) payment for repairs and operating expenses for acquired "in Rem" properties (i.e., certain properties in New York City); and (25) residential rehabilitation including code enforcement, lead-based paint hazard evaluation, and removal.

The expenditures we found during our testing were not accompanied by documentation that supported the expenditure was used to benefit low and moderate income persons, eliminate slums or blight or meet community development needs having a particular urgency.

These expenditures resulted in questioned costs of \$35,292. As a result, certain CDBG Program funds may not benefit qualified low to moderate income residents eliminate slums or blight or meet community development needs having a particular urgency.

Finding Number	2003-002 (Continued)
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To help ensure CDBG Program monies are utilized for only allowable activities and for meeting one of the national objectives of the CDBG program, the City Auditor should consult with representatives of the Department of Housing and Urban Development prior to incurring the obligation for potentially higher risk types of expenditures. This will help ensure the CDBG Program income allowable activity guidelines are met.

**CITY OF COSHOCTON
COSHOCTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Rev. Code Section 5705.39, appropriations exceeded total estimated resources in three funds throughout the year.	Yes	Finding no longer valid.



**Auditor of State
Betty Montgomery**

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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
OCTOBER 7, 2004**