



Mary Taylor, CPA
Auditor of State

**CITY OF COSHOCTON
COSHOCTON COUNTY**

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COSHOCTON COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Fire Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Mary Taylor, CPA
Auditor of State

September 25, 2007

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

The management's discussion and analysis of the City of Coshocton's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. 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 2006 are as follows:

- The total net assets of the City increased \$248,416. Net assets of governmental activities increased \$418,930 or 5.90% over 2005 and net assets of business-type activities decreased \$170,514 or 4.30% from 2005.
- General revenues accounted for \$6,432,827 or 73.66% of total governmental activities revenue. Program specific revenues accounted for \$2,300,493 or 26.34% of total governmental activities revenue.
- The City had \$8,267,250 in expenses related to governmental activities; \$2,300,493 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,966,757 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,432,827.
- The general fund had revenues of \$4,177,626 in 2006. This represents an increase of \$93,234 from 2005 revenues. The expenditures of the general fund, which totaled \$4,393,186 in 2006, increased \$78,948 from 2005. The net decrease in fund balance for the general fund was \$215,560 or 68.46%.
- The fire fund had revenues of \$1,026,046 in 2006. The expenditures of the fire fund, totaled \$959,936 in 2006. The net increase in fund balance for the fire fund was \$66,110.
- Net assets for the business-type activities, which are made up of the water, sewer, and refuse enterprise funds, decreased in 2006 by \$170,514.
- The water fund, a major enterprise fund, had operating revenues of \$2,357,904 in 2006 and operating expenses of \$2,380,380 in 2006. The net assets of the water fund decreased \$147,704 or 6.08% from 2005.
- The sewer fund, a major enterprise fund, had operating revenues of \$1,557,635 in 2006 and operating expenses of \$1,472,643 in 2006. The net assets of the sewer fund increased \$1,994 or 0.15% from 2005.
- In the general fund, the actual revenues and other financing sources came in \$443,491 lower than they were in the final budget and actual expenditures were \$360,846 less than the amount in the final budget. Budgeted revenues and other financing sources decreased \$291,860 from the original to the final budget due primarily to a decrease in projected income taxes and intergovernmental revenue. Budgeted expenditures increased \$355,366 from the original to the final budget due primarily to an increase in the estimated cost of general government and public health and welfare 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.

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

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.

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 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Governmental Funds

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

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 32-62 of this report.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2006 Total	2005 Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>		
<u>Assets</u>						
Current and other assets	\$ 4,489,294	\$ 1,413,302	\$ 3,388,817	\$ 2,212,062	\$ 5,902,596	\$ 5,600,879
Capital assets	<u>6,115,283</u>	<u>14,271,601</u>	<u>5,949,916</u>	<u>13,330,111</u>	<u>20,386,884</u>	<u>19,280,027</u>
Total assets	<u>10,604,577</u>	<u>15,684,903</u>	<u>9,338,733</u>	<u>15,542,173</u>	<u>26,289,480</u>	<u>24,880,906</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,372,006	10,691,002	1,216,889	9,953,786	12,063,008	11,170,675
Other liabilities	<u>1,714,364</u>	<u>1,199,384</u>	<u>1,022,567</u>	<u>1,623,356</u>	<u>2,913,748</u>	<u>2,645,923</u>
Total liabilities	<u>3,086,370</u>	<u>11,890,386</u>	<u>2,239,456</u>	<u>11,577,142</u>	<u>14,976,756</u>	<u>13,816,598</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,342,496	2,996,870	5,317,970	3,609,285	8,339,366	8,927,255
Restricted	2,188,407	-	1,425,377	-	2,188,407	1,425,377
Unrestricted (deficit)	<u>(12,696)</u>	<u>797,647</u>	<u>355,930</u>	<u>355,746</u>	<u>784,951</u>	<u>711,676</u>
Total net assets	<u>\$ 7,518,207</u>	<u>\$ 3,794,517</u>	<u>\$ 7,099,277</u>	<u>\$ 3,965,031</u>	<u>\$ 11,312,724</u>	<u>\$ 11,064,308</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$11,312,724. At year-end, net assets were \$7,518,207 and \$3,794,517 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 77.55% 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, 2006, were \$5,342,496 and \$2,996,870 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$2,188,407, 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 is a deficit \$12,696.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The table below shows the changes in net assets for fiscal years 2006 and 2005.

	Change in Net Assets					
	Governmental Activities <u>2006</u>	Business-type Activities <u>2006</u>	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	2006 Total	2005 Total
Revenues:						
Program revenues:						
Charges for services	\$ 1,076,663	\$ 4,447,362	\$ 816,291	\$ 4,035,842	\$ 5,524,025	\$ 4,852,133
Operating grants and contributions	1,223,830	-	1,188,827	-	1,223,830	1,188,827
Capital grants and contributions	-	-	-	533,137	-	533,137
Total program revenues	<u>2,300,493</u>	<u>4,447,362</u>	<u>2,005,118</u>	<u>4,568,979</u>	<u>6,747,855</u>	<u>6,574,097</u>
General revenues:						
Property taxes	566,355	-	491,955	-	566,355	491,955
Income taxes	4,393,086	-	3,592,896	-	4,393,086	3,592,896
Lodging tax	66,394	-	-	-	66,394	-
JEDD revenue	133,555	-	50,031	-	133,555	50,031
Unrestricted grants and entitlements	919,311	-	635,909	-	919,311	635,909
Investment earnings	83,022	-	90,831	-	83,022	90,831
Miscellaneous	<u>271,104</u>	<u>23,588</u>	<u>419,625</u>	<u>25,835</u>	<u>294,692</u>	<u>445,460</u>
Total general revenues	<u>6,432,827</u>	<u>23,588</u>	<u>5,281,247</u>	<u>25,835</u>	<u>6,456,415</u>	<u>5,307,082</u>
Total revenues	<u>8,733,320</u>	<u>4,470,950</u>	<u>7,286,365</u>	<u>4,594,814</u>	<u>13,204,270</u>	<u>11,881,179</u>
Expenses:						
General government	2,173,184	-	1,807,553	-	2,173,184	1,807,553
Security of persons and property	3,032,493	-	2,936,932	-	3,032,493	2,936,932
Public health and welfare	995,499	-	829,075	-	995,499	829,075
Transportation	1,219,801	-	1,333,778	-	1,219,801	1,333,778
Community environment	13,299	-	15,539	-	13,299	15,539
Leisure time activity	163,886	-	84,273	-	163,886	84,273
Urban redevelopment and housing	629,305	-	590,107	-	629,305	590,107
Interest and fiscal charges	39,783	-	33,446	-	39,783	33,446
Water	-	2,550,275	-	2,479,188	2,550,275	2,479,188
Sewer	-	1,555,194	-	1,680,024	1,555,194	1,680,024
Refuse	<u>-</u>	<u>583,135</u>	<u>-</u>	<u>538,629</u>	<u>583,135</u>	<u>538,629</u>
Total expenses	<u>8,267,250</u>	<u>4,688,604</u>	<u>7,630,703</u>	<u>4,697,841</u>	<u>12,955,854</u>	<u>12,328,544</u>
Transfers	<u>(47,140)</u>	<u>47,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	418,930	(170,514)	(344,338)	(103,027)	248,416	(447,365)
Net assets at beginning of year	<u>7,099,277</u>	<u>3,965,031</u>	<u>7,443,615</u>	<u>4,068,058</u>	<u>11,064,308</u>	<u>11,511,673</u>
Net assets at end of year	<u>\$ 7,518,207</u>	<u>\$ 3,794,517</u>	<u>\$ 7,099,277</u>	<u>\$ 3,965,031</u>	<u>\$ 11,312,724</u>	<u>\$ 11,064,308</u>

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Governmental Activities

Governmental activities net assets increased \$248,416 in 2006. This increase is a result of increasing charges for services, income tax, lodging tax, and unrestricted grants and entitlements versus amounts reported in the prior year.

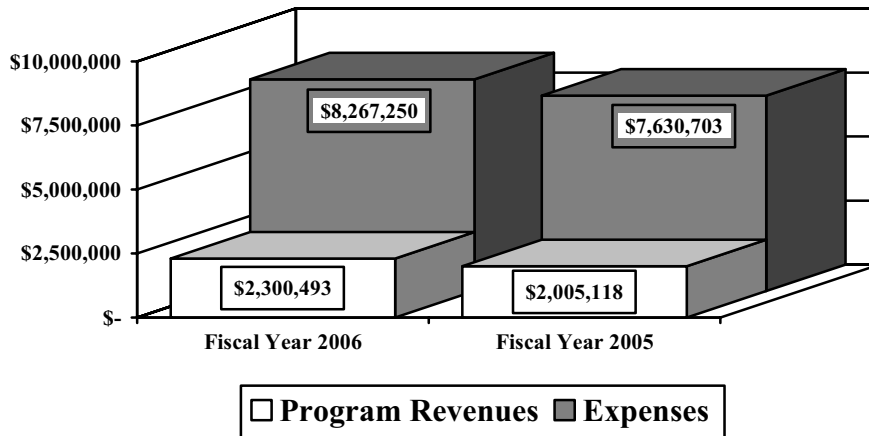
Security of persons and property, which primarily supports the operations of the fire department accounted for \$3,032,493 of the total expenses of the City. General government expenses totaled \$2,173,184. General government expenses were partially funded by \$303,845 in direct charges to users of the services. Transportation expenses were partially funded by \$670,116 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,223,830 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$670,116 subsidized transportation programs and \$543,714 subsidized urban redevelopment and housing activities.

General revenues totaled \$6,432,827, and amounted to 73.66% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,959,441. 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 \$919,311.

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 2006.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF COSHOCTON, OHIO

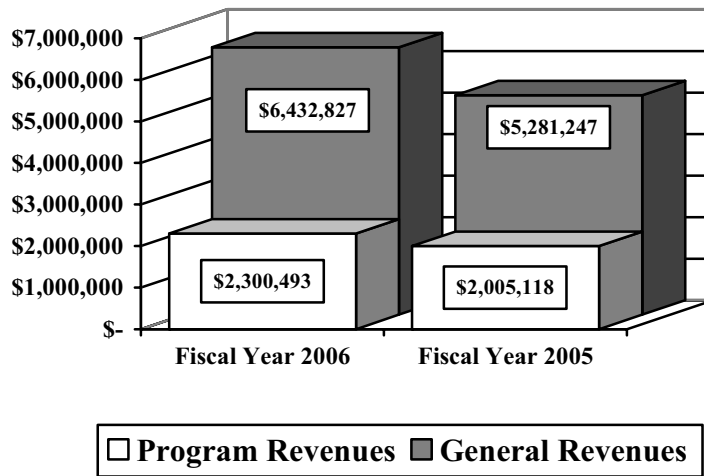
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 2,173,184	\$ 1,869,339	\$ 1,807,553	\$ 1,511,343
Security of persons and property	3,032,493	3,032,493	2,936,932	2,936,932
Public health and welfare	995,499	223,110	829,075	246,447
Transportation	1,219,801	549,403	1,333,778	807,501
Community environment	13,299	13,152	15,539	14,607
Leisure time activity	163,886	163,886	84,273	84,273
Urban redevelopment and housing	629,305	75,591	590,107	(8,964)
Interest and fiscal charges	39,783	39,783	33,446	33,446
Total	<u>\$ 8,267,250</u>	<u>\$ 5,966,757</u>	<u>\$ 7,630,703</u>	<u>\$ 5,625,585</u>

The dependence upon general revenues for governmental activities is apparent, with 77.81% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2006 and 2005.

Governmental Activities – General and Program Revenues



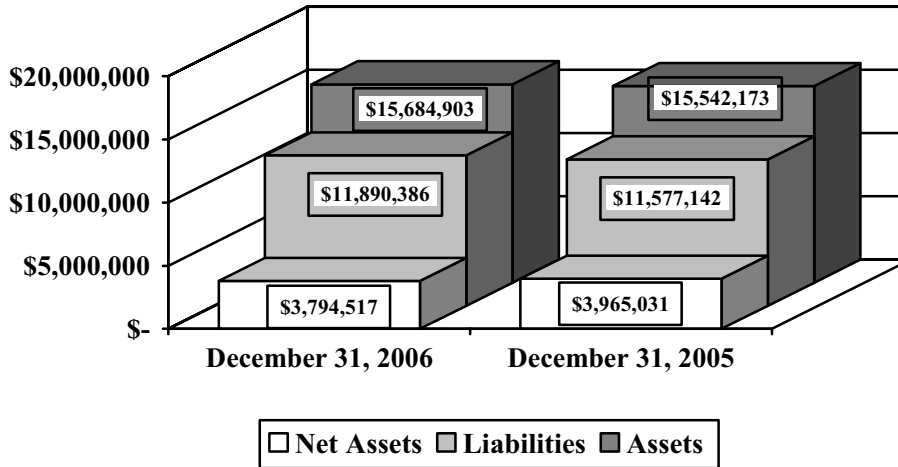
CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$4,447,362, general revenues of \$23,588, transfers in of \$47,140 and expenses of \$4,688,604 for 2006. 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 \$1,785,537 which is \$195,988 above last year's total of \$1,589,549. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 and 2005 for all major and nonmajor governmental funds.

	Fund Balances 12/31/06	Fund Balances 12/31/05	Increase
Major funds:			
General	\$ 99,320	\$ 314,880	\$ (215,560)
Fire	74,132	8,022	66,110
Other nonmajor governmental funds	<u>1,612,085</u>	<u>1,266,647</u>	<u>345,438</u>
Total	<u>\$ 1,785,537</u>	<u>\$ 1,589,549</u>	<u>\$ 195,988</u>

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

General Fund

The City's general fund balance decreased \$215,560. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 2,808,391	\$ 2,949,209	(4.77) %
Charges for services	379,753	351,236	8.12 %
Licenses and permits	8,864	8,677	2.16 %
Fines and forfeitures	16,757	671	2,397.32 %
Investment income	40,818	34,869	17.06 %
Contributions and donations	5,400	3,850	40.26 %
Intergovernmental	888,309	681,375	30.37 %
Other	29,334	240,973	(87.83) %
Total	<u>\$ 4,177,626</u>	<u>\$ 4,270,860</u>	(2.18) %

Tax revenue represents 67.22% of all general fund revenue. The increase in intergovernmental revenues and fines and forfeitures revenues were caused by an increase in revenues received during the year along with an increase in receivables recorded at year end. The increase in contributions and donations was due to an increase in donations during the year.

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

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 1,869,385	\$ 1,567,481	19.26 %
Security of persons and property	1,918,450	2,330,892	(17.69) %
Public health and welfare	496,404	328,836	50.96 %
Community environment	12,746	15,139	(15.81) %
Leisure time activity	94,101	69,790	34.83 %
Debt service	2,100	2,100	- %
Total	<u>\$ 4,393,186</u>	<u>\$ 4,314,238</u>	1.83 %

The City increased total expenditures during 2006 by \$78,948. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to the City's creation of the fire fund during 2005. In 2005, before the fire fund was created, fire fund expenditures were recorded in the general fund. Public health and welfare expenditures increased due to health salary expenditures being included in the general fund in 2006 and in the home health fund in 2005.

Fire Fund

The fire fund had revenues of \$1,026,046 in 2006. The expenditures of the fire fund, totaled \$959,936 in 2006. The net increase in fund balance for the fire fund was \$66,110.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

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 fire fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of revenues, which decreased \$291,860 from \$5,080,284 to \$4,788,424. Actual revenues and other financing sources of \$4,344,933 were less than final budgeted revenues and other financing sources by \$443,491. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$360,846 lower than the final budgeted amounts.

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.

The City's enterprise funds (as presented on the statement of net assets on page 26) reported a combined net assets of \$3,829,631. The schedule below indicates the net assets and the total change in net assets as of December 31, 2006 for all enterprise funds.

	<u>Net Assets</u> <u>12/31/06</u>	<u>Net Assets</u> <u>12/31/05</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
Water	\$ 2,280,955	\$ 2,428,659	\$ (147,704)
Sewer	1,376,221	1,374,227	1,994
Other nonmajor funds	<u>172,455</u>	<u>200,179</u>	<u>(27,724)</u>
 Total	 <u>\$ 3,829,631</u>	 <u>\$ 4,003,065</u>	 <u>\$ (173,434)</u>

Water Fund

The City's Water fund net assets decreased \$147,704 due mainly to the increase in contractual services expenses.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The following tables illustrate the revenues and expenses of the Water fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Revenues</u>			
Charges for services	\$ 2,339,258	\$ 2,100,071	11.39 %
Other	<u>18,646</u>	<u>19,662</u>	(5.17) %
Total	<u>\$ 2,357,904</u>	<u>\$ 2,119,733</u>	11.24 %

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Expenses</u>			
Personal services	\$ 970,814	\$ 921,408	5.36 %
Contractual services	296,261	197,177	50.25 %
Materials and supplies	921,212	888,451	3.69 %
Depreciation	191,093	188,557	1.34 %
Other	<u>1,000</u>	<u>413</u>	142.13 %
Total	<u>\$ 2,380,380</u>	<u>\$ 2,196,006</u>	8.40 %

<u>Nonoperating Revenues (Expenses)</u>			
Interest expense and fiscal charges	\$ (172,368)	\$ (251,401)	(31.44) %
Intergovernmental	<u>-</u>	<u>33,137</u>	(100.00) %
Total	<u>\$ (172,368)</u>	<u>\$ (218,264)</u>	(21.03) %

Sewer Fund

The City's sewer fund net assets increased \$1,994 due to an increase in charges for services combined with a decrease in contractual services expenses. The following tables illustrate the revenues and expenses of the sewer fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Revenues</u>			
Charges for services	\$ 1,552,693	\$ 1,385,478	12.07 %
Other	<u>4,942</u>	<u>6,173</u>	(19.94) %
Total	<u>\$ 1,557,635</u>	<u>\$ 1,391,651</u>	11.93 %

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Operating Expenses

Personal services	\$ 587,367	\$ 615,231	(4.53) %
Contractual services	380,342	464,106	(18.05) %
Materials and supplies	333,937	315,416	5.87 %
Other	44,052	55,020	(19.93) %
Depreciation	<u>126,945</u>	<u>122,423</u>	3.69 %
 Total	 <u>\$ 1,472,643</u>	 <u>\$ 1,572,196</u>	 (6.33) %

Nonoperating Revenues (Expenses)

Intergovernmental	\$ -	\$ 500,000	(100.00) %
Interest expense and fiscal charges	<u>(82,998)</u>	<u>(90,039)</u>	(7.82) %
 Total	 <u>\$ (82,998)</u>	 <u>\$ 409,961</u>	 120.25 %

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$20,386,884 (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, \$6,115,283 was reported in governmental activities and \$14,271,601 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2006 balances compared to 2005:

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

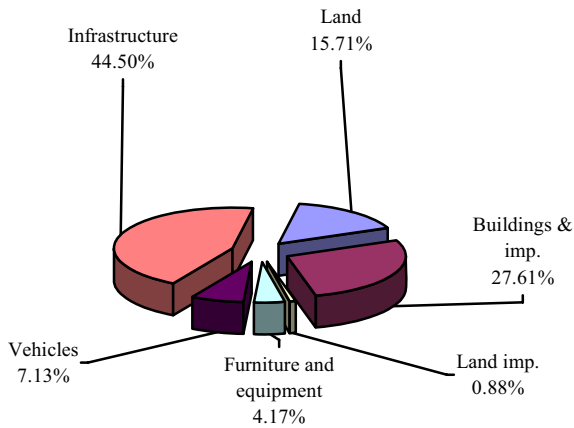
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 960,438	\$ 960,438	\$ 34,500	\$ 34,500	\$ 994,938	\$ 994,938
Land improvements	54,098	30,243	8,937	10,427	63,035	40,670
Buildings and improvements	1,688,624	1,641,374	2,341,101	2,421,761	4,029,725	4,063,135
Furniture and equipment	255,014	280,560	170,825	218,233	425,839	498,793
Vehicles	435,878	55,261	75,723	100,592	511,601	155,853
Infrastructure	2,721,231	2,982,040	-	-	2,721,231	2,982,040
Water and sewer lines	-	-	1,684,946	1,801,417	1,684,946	1,801,417
Construction in progress	<u>-</u>	<u>-</u>	<u>9,955,569</u>	<u>8,743,181</u>	<u>9,955,569</u>	<u>8,743,181</u>
 Totals	 <u>\$ 6,115,283</u>	 <u>\$ 5,949,916</u>	 <u>\$ 14,271,601</u>	 <u>\$ 13,330,111</u>	 <u>\$ 20,386,884</u>	 <u>\$ 19,280,027</u>

CITY OF COSHOCTON, OHIO

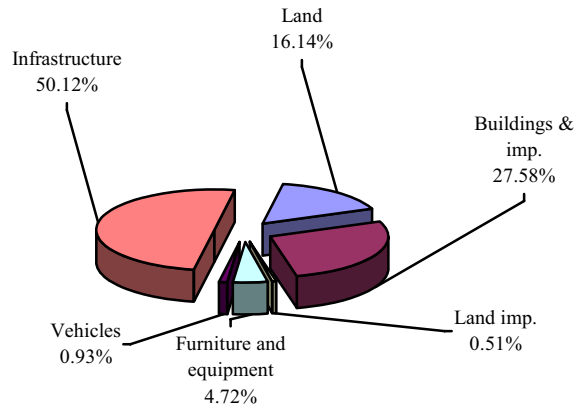
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



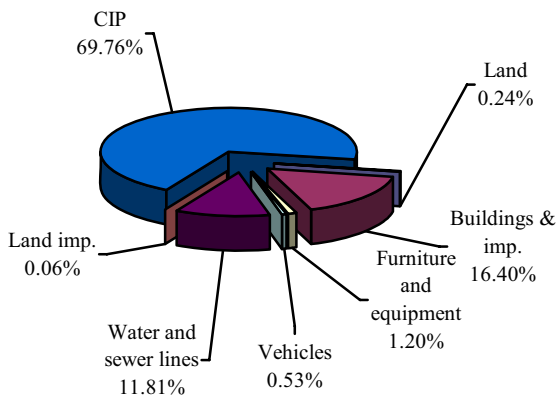
Capital Assets - Governmental Activities 2005



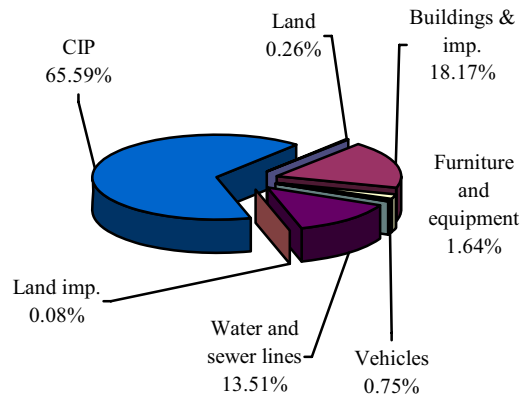
The City's largest governmental capital asset category is infrastructure. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 44.50% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



The City's third largest business-type capital asset category is water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's water and sewer lines (cost less accumulated depreciation) represents approximately 11.81% of the City's total business-type capital assets.

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Special assessment bonds	\$ -	\$ 20,000
General obligation bonds	465,000	610,000
Capital lease obligation	<u>307,787</u>	<u>1,946</u>
Total long-term obligations	<u>\$ 772,787</u>	<u>\$ 631,946</u>

	Business-type Activities	
	<u>2006</u>	<u>2005</u>
Revenue bonds	1,415,000	1,625,000
OWDA loans	<u>9,062,229</u>	<u>8,188,226</u>
Total long-term obligations	<u>\$ 10,477,229</u>	<u>\$ 9,813,226</u>

Further detail on the City's long-term obligations can be found in Note 13 to the financial statements.

Economic Conditions and Outlook

The City's Administration considers the impact of various economic factors when establishing the fiscal year 2007 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 2007 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 2006 budget, the City emphasized various efforts to continue to contain costs while pursuing new sources of revenue. A ½% income tax increase was passed in May 2005 specifically for the operational expenses and capital improvements of the fire department. This is freeing up general fund monies for other departments.

The average unemployment rate for Coshocton County in 2006 was 6.1% compared to the 5.4% State of Ohio average. The City Auditor anticipates the 2006 rate to continue through 2007. 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 citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report 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, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,592,969	\$ 570,353	\$ 2,163,322
Receivables (net of allowances for uncollectibles):			
Income taxes	1,149,560	-	1,149,560
Property and other local taxes	568,180	-	568,180
Accounts	34,097	834,757	868,854
Accrued interest	14,147	-	14,147
Special assessments	21,238	-	21,238
Internal balances	35,114	(35,114)	-
Due from other governments	1,073,989	-	1,073,989
Deferred charges	-	43,306	43,306
Capital assets:			
Land and construction in progress.	960,438	9,990,069	10,950,507
Depreciable capital assets, net	5,154,845	4,281,532	9,436,377
Total capital assets.	<u>6,115,283</u>	<u>14,271,601</u>	<u>20,386,884</u>
 Total assets.	 <u>10,604,577</u>	 <u>15,684,903</u>	 <u>26,289,480</u>
Liabilities:			
Accounts payable.	41,964	74,398	116,362
Contracts payable.	410,000	88,655	498,655
Accrued wages and benefits	66,356	34,497	100,853
Due to other governments	188,267	45,329	233,596
Deferred revenue.	464,298	-	464,298
Accrued interest payable.	2,905	36,505	39,410
Claims payable.	375,574	-	375,574
Notes payable.	165,000	920,000	1,085,000
Long-term liabilities:			
Due within one year	313,649	258,629	572,278
Due in more than one year	1,058,357	10,432,373	11,490,730
 Total liabilities	 <u>3,086,370</u>	 <u>11,890,386</u>	 <u>14,976,756</u>
Net assets:			
Invested in capital assets, net of related debt	5,342,496	2,996,870	8,339,366
Restricted for:			
Capital projects.	528,423	-	528,423
Debt service	131,246	-	131,246
Perpetual care:			
Expendable	125,005	-	125,005
Nonexpendable	250,000	-	250,000
Transportation projects	276,866	-	276,866
Public health and welfare	815,933	-	815,933
Other purposes	60,934	-	60,934
Unrestricted.	<u>(12,696)</u>	<u>797,647</u>	<u>784,951</u>
 Total net assets	 <u>\$ 7,518,207</u>	 <u>\$ 3,794,517</u>	 <u>\$ 11,312,724</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues		
	Expenses	Charges for Services	Operating and Contributions
Governmental Activities:			
General government	\$ 2,173,184	\$ 303,845	\$ -
Security of persons and property.	3,032,493	-	-
Public health and welfare	995,499	772,389	-
Transportation	1,219,801	282	670,116
Community environment.	13,299	147	-
Leisure time activity.	163,886	-	-
Urban redevelopment and housing	629,305	-	553,714
Interest and fiscal charges.	39,783	-	-
	<u>8,267,250</u>	<u>1,076,663</u>	<u>1,223,830</u>
Business-type Activities:			
Water	2,550,275	2,339,258	-
Sewer	1,555,194	1,552,693	-
Nonmajor:			
Refuse.	583,135	555,411	-
	<u>4,688,604</u>	<u>4,447,362</u>	<u>-</u>
Total business-type activities	<u>4,688,604</u>	<u>4,447,362</u>	<u>-</u>
Total primary government.	<u>\$ 12,955,854</u>	<u>\$ 5,524,025</u>	<u>\$ 1,223,830</u>

General Revenues:

Property taxes levied for:	
General purposes.	
Fire pension fund.	
Income taxes levied for:	
General purposes.	
Fire fund	
Street fund	
Capital project funds	
Debt service	
JEDD revenue	
Lodging tax	
Grants and entitlements not restricted to specific programs . .	
Investment earnings	
Miscellaneous	
 Total general revenues.	
 Transfers.	
 Change in net assets.	
 Net assets at beginning of year	
 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
\$ (1,869,339)	\$ -	\$ (1,869,339)
(3,032,493)	-	(3,032,493)
(223,110)	-	(223,110)
(549,403)	-	(549,403)
(13,152)	-	(13,152)
(163,886)	-	(163,886)
(75,591)	-	(75,591)
(39,783)	-	(39,783)
<u>(5,966,757)</u>	<u>-</u>	<u>(5,966,757)</u>
-	(211,017)	(211,017)
-	(2,501)	(2,501)
<u>-</u>	<u>(27,724)</u>	<u>(27,724)</u>
<u>-</u>	<u>(241,242)</u>	<u>(241,242)</u>
<u>(5,966,757)</u>	<u>(241,242)</u>	<u>(6,207,999)</u>
505,119	-	505,119
61,236	-	61,236
2,378,759	-	2,378,759
1,126,103	-	1,126,103
142,543	-	142,543
579,124	-	579,124
166,557	-	166,557
133,555	-	133,555
66,394	-	66,394
919,311	-	919,311
83,022	-	83,022
271,104	23,588	294,692
<u>6,432,827</u>	<u>23,588</u>	<u>6,456,415</u>
<u>(47,140)</u>	<u>47,140</u>	<u>-</u>
418,930	(170,514)	248,416
<u>7,099,277</u>	<u>3,965,031</u>	<u>11,064,308</u>
<u>\$ 7,518,207</u>	<u>\$ 3,794,517</u>	<u>\$ 11,312,724</u>

CITY OF COSHOCTON, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 18,018	\$ -	\$ 1,543,146	\$ 1,561,164
Receivables (net of allowance for uncollectibles):				
Income taxes	646,236	262,144	241,180	1,149,560
Property and other local taxes	500,673	-	67,507	568,180
Accounts	29,522	-	4,575	34,097
Accrued interest	12,727	-	1,382	14,109
Special assessments	-	-	21,238	21,238
Due from other governments	335,318	-	738,671	1,073,989
	<u>\$ 1,542,494</u>	<u>\$ 262,144</u>	<u>\$ 2,617,699</u>	<u>\$ 4,422,337</u>
Total assets				
Liabilities:				
Accounts payable	\$ 11,847	\$ -	\$ 30,117	\$ 41,964
Contracts payable	-	-	410,000	410,000
Accrued wages and benefits	21,506	29,420	15,430	66,356
Due to other governments	131,978	-	56,289	188,267
Deferred revenue	1,112,843	158,592	493,778	1,765,213
Note payable	165,000	-	-	165,000
	<u>1,443,174</u>	<u>188,012</u>	<u>1,005,614</u>	<u>2,636,800</u>
Total liabilities				
Fund Balances:				
Reserved for encumbrances	4,051	1,271	426,115	431,437
Reserved for unclaimed monies	2,910	-	-	2,910
Reserved for debt service	-	-	85,528	85,528
Reserved for perpetual care	-	-	250,000	250,000
Unreserved, undesignated, reported in:				
General fund	92,359	-	-	92,359
Special revenue funds	-	72,861	288,354	361,215
Capital projects funds	-	-	437,083	437,083
Permanent fund	-	-	125,005	125,005
	<u>99,320</u>	<u>74,132</u>	<u>1,612,085</u>	<u>1,785,537</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 1,542,494</u>	<u>\$ 262,144</u>	<u>\$ 2,617,699</u>	<u>\$ 4,422,337</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, 2006

Total governmental fund balances		\$ 1,785,537
<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.		6,115,283
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 67,740	
Income taxes	724,633	
Investment income	5,343	
Special assessments	21,238	
Intergovernmental revenues	481,961	
Total		1,300,915
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 \$35,114 are:		(308,617)
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	2,905	
General obligation bonds	465,000	
Compensated absences	599,219	
Capital lease payable	307,787	
Total		(1,374,911)
Net assets of governmental activities		\$ 7,518,207

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, 2006

	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,329,869	\$ 1,023,484	\$ 799,913	\$ 4,153,266
Property and other taxes	478,522	-	124,420	602,942
Charges for services	379,753	-	595,059	974,812
Licenses and permits	8,864	-	31,857	40,721
Fines and forfeitures	16,757	-	44,373	61,130
Intergovernmental	888,309	-	1,175,846	2,064,155
Special assessments.	-	-	23,197	23,197
Investment income	40,818	-	39,298	80,116
Contributions and donations	5,400	-	-	5,400
JEDD revenue.	-	-	120,599	120,599
Other	29,334	2,562	230,233	262,129
Total revenues	<u>4,177,626</u>	<u>1,026,046</u>	<u>3,184,795</u>	<u>8,388,467</u>
Expenditures:				
Current:				
General government.	1,869,385	-	217,999	2,087,384
Security of persons and property	1,918,450	959,936	50,581	2,928,967
Public health and welfare	496,404	-	460,697	957,101
Transportation.	-	-	870,680	870,680
Community environment	12,746	-	447	13,193
Leisure time activity.	94,101	-	42,558	136,659
Urban redevelopment and housing	-	-	629,305	629,305
Capital outlay	-	-	669,221	669,221
Debt service:				
Principal retirement.	1,946	-	237,655	239,601
Interest and fiscal charges.	154	-	40,656	40,810
Total expenditures	<u>4,393,186</u>	<u>959,936</u>	<u>3,219,799</u>	<u>8,572,921</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(215,560)</u>	<u>66,110</u>	<u>(35,004)</u>	<u>(184,454)</u>
Other financing sources:				
Capital lease transaction	<u>-</u>	<u>-</u>	<u>380,442</u>	<u>380,442</u>
Total other financing sources.	<u>-</u>	<u>-</u>	<u>380,442</u>	<u>380,442</u>
Net change in fund balances	(215,560)	66,110	345,438	195,988
Fund balances at beginning of year	<u>314,880</u>	<u>8,022</u>	<u>1,266,647</u>	<u>1,589,549</u>
Fund balances at end of year	<u>\$ 99,320</u>	<u>\$ 74,132</u>	<u>\$ 1,612,085</u>	<u>\$ 1,785,537</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, 2006

Net change in fund balances - total governmental funds \$ 195,988

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

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

Capital asset additions	\$ 590,171	
Current year depreciation	(422,704)	
Total		167,467

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (2,100)

Capital lease transactions are recognized as revenue in the governmental funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities in the statement of activities. (380,442)

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

Property taxes	29,807	
Income taxes	252,776	
Investment income	2,446	
Special assessments	(19,622)	
Intergovernmental revenues	78,986	
Total		344,393

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. 239,601

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,027

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (14,276)

An internal service fund is used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund, including internal balances is allocated among the governmental activities. (132,728)

Change in net assets of governmental activities \$ 418,930

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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 2,804,351	\$ 2,643,242	\$ 2,398,432	\$ (244,810)
Property and other taxes	559,508	527,365	478,522	(48,843)
Charges for services	432,762	407,900	370,121	(37,779)
Licenses and permits.	10,364	9,768	8,864	(904)
Fines and forfeitures.	5,518	5,201	4,719	(482)
Intergovernmental	987,725	930,981	844,756	(86,225)
Investment income	46,518	43,846	39,785	(4,061)
Contributions and donations.	6,314	5,951	5,400	(551)
Other	62,224	49,170	29,334	(19,836)
Total revenues	<u>4,915,284</u>	<u>4,623,424</u>	<u>4,179,933</u>	<u>(443,491)</u>
Expenditures:				
Current:				
General government	1,809,097	2,016,363	1,870,916	145,447
Security of persons and property	2,044,000	2,061,670	1,942,562	119,108
Public health and welfare.	467,689	573,639	494,676	78,963
Community environment	18,583	19,063	14,415	4,648
Leisure time activity	84,405	108,405	95,725	12,680
Total expenditures.	<u>4,423,774</u>	<u>4,779,140</u>	<u>4,418,294</u>	<u>360,846</u>
Excess (deficiency) of revenues over (under) expenditures	<u>491,510</u>	<u>(155,716)</u>	<u>(238,361)</u>	<u>(82,645)</u>
Other financing sources:				
Notes issued.	<u>165,000</u>	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Total other financing sources	<u>165,000</u>	<u>165,000</u>	<u>165,000</u>	<u>-</u>
Net change in fund balance	656,510	9,284	(73,361)	(82,645)
Fund balance at beginning of year.	<u>77,907</u>	<u>77,907</u>	<u>77,907</u>	<u>-</u>
Prior year encumbrances appropriated	<u>9,421</u>	<u>9,421</u>	<u>9,421</u>	<u>-</u>
Fund balance at end of year	<u>\$ 743,838</u>	<u>\$ 96,612</u>	<u>\$ 13,967</u>	<u>\$ (82,645)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 FIRE FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes.	\$ 1,097,111	\$ 1,097,111	\$ 972,921	\$ (124,190)
Other	2,889	2,889	2,562	(327)
Total revenues.	<u>1,100,000</u>	<u>1,100,000</u>	<u>975,483</u>	<u>(124,517)</u>
Expenditures:				
Current:				
Security of persons and property	992,760	1,116,094	985,851	130,243
Total expenditures	<u>992,760</u>	<u>1,116,094</u>	<u>985,851</u>	<u>130,243</u>
Net change in fund balance.	107,240	(16,094)	(10,368)	5,726
Fund balance at beginning of year	8,637	8,637	8,637	-
Prior year encumbrances appropriated	<u>460</u>	<u>460</u>	<u>460</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 116,337</u>	<u>\$ (6,997)</u>	<u>\$ (1,271)</u>	<u>\$ 5,726</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2006

	<u>Business-type Activities -Enterprise Funds</u>				<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	
Assets:					
Current assets:					
Equity in pooled cash and cash equivalents	\$ 18,729	\$ 500,917	\$ 50,707	\$ 570,353	\$ 31,805
Receivables (net of allowance for uncollectibles):					
Accounts	397,492	315,517	121,748	834,757	-
Accrued interest	-	-	-	-	38
Deferred charges	-	43,306	-	43,306	-
Total current assets	<u>416,221</u>	<u>859,740</u>	<u>172,455</u>	<u>1,448,416</u>	<u>31,843</u>
Noncurrent assets:					
Capital assets:					
Land and construction in progress	9,609,979	380,090	-	9,990,069	-
Depreciable capital assets, net	<u>2,191,077</u>	<u>2,090,455</u>	<u>-</u>	<u>4,281,532</u>	<u>-</u>
Total capital assets	<u>11,801,056</u>	<u>2,470,545</u>	<u>-</u>	<u>14,271,601</u>	<u>-</u>
Total noncurrent assets.	<u>11,801,056</u>	<u>2,470,545</u>	<u>-</u>	<u>14,271,601</u>	<u>-</u>
Total assets	<u>12,217,277</u>	<u>3,330,285</u>	<u>172,455</u>	<u>15,720,017</u>	<u>31,843</u>
Liabilities:					
Current liabilities:					
Accounts payable.	54,319	20,079	-	74,398	-
Contracts payable.	-	88,655	-	88,655	-
Accrued wages and benefits	9,702	24,795	-	34,497	-
Compensated absences	36,175	7,454	-	43,629	-
Due to other governments	26,693	18,636	-	45,329	-
Claims payable.	-	-	-	-	375,574
Notes payable.	920,000	-	-	920,000	-
Current portion of revenue bonds	-	215,000	-	215,000	-
Accrued interest payable.	32,673	3,832	-	36,505	-
Total current liabilities	<u>1,079,562</u>	<u>378,451</u>	<u>-</u>	<u>1,458,013</u>	<u>375,574</u>
Long-term liabilities:					
Revenue bonds	-	1,120,808	-	1,120,808	-
OWDA loans	8,678,618	383,611	-	9,062,229	-
Compensated absences	<u>178,142</u>	<u>71,194</u>	<u>-</u>	<u>249,336</u>	<u>-</u>
Total long-term liabilities	<u>8,856,760</u>	<u>1,575,613</u>	<u>-</u>	<u>10,432,373</u>	<u>-</u>
Total liabilities	<u>9,936,322</u>	<u>1,954,064</u>	<u>-</u>	<u>11,890,386</u>	<u>375,574</u>
Net assets:					
Invested in capital assets, net of related debt.	2,202,438	794,432	-	2,996,870	-
Unrestricted (deficit)	<u>78,517</u>	<u>581,789</u>	<u>172,455</u>	<u>832,761</u>	<u>(343,731)</u>
Total net assets	<u>\$ 2,280,955</u>	<u>\$ 1,376,221</u>	<u>\$ 172,455</u>	<u>3,829,631</u>	<u>\$ (343,731)</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>(35,114)</u>	
Net assets of business-type activities				<u>\$ 3,794,517</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Operating revenues:					
Charges for services	\$ 2,339,258	\$ 1,552,693	\$ 555,411	\$ 4,447,362	\$ 1,294,998
Other	18,646	4,942	-	23,588	9,743
Total operating revenues	<u>2,357,904</u>	<u>1,557,635</u>	<u>555,411</u>	<u>4,470,950</u>	<u>1,304,741</u>
Operating expenses:					
Personal services	970,814	587,367	-	1,558,181	-
Contract services	296,261	380,342	463,255	1,139,858	149,070
Materials and supplies	921,212	333,937	119,880	1,375,029	829
Claims	-	-	-	-	1,285,110
Other	1,000	44,052	-	45,052	-
Depreciation	191,093	126,945	-	318,038	-
Total operating expenses	<u>2,380,380</u>	<u>1,472,643</u>	<u>583,135</u>	<u>4,436,158</u>	<u>1,435,009</u>
Operating income (loss)	<u>(22,476)</u>	<u>84,992</u>	<u>(27,724)</u>	<u>34,792</u>	<u>(130,268)</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	-	-	460
Interest expense and fiscal charges	<u>(172,368)</u>	<u>(82,998)</u>	<u>-</u>	<u>(255,366)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(172,368)</u>	<u>(82,998)</u>	<u>-</u>	<u>(255,366)</u>	<u>460</u>
Income (loss) before contributions	(194,844)	1,994	(27,724)	(220,574)	(129,808)
Capital contributions	<u>47,140</u>	<u>-</u>	<u>-</u>	<u>47,140</u>	<u>-</u>
Changes in net assets	(147,704)	1,994	(27,724)	(173,434)	(129,808)
Net assets at beginning of year	<u>2,428,659</u>	<u>1,374,227</u>	<u>200,179</u>		<u>(213,923)</u>
Net assets at end of year	<u>\$ 2,280,955</u>	<u>\$ 1,376,221</u>	<u>\$ 172,455</u>		<u>\$ (343,731)</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				<u>2,920</u>	
Changes in net assets of business-type activities				<u>\$ (170,514)</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 2,228,549	\$ 1,487,835	\$ 552,561	\$ 4,268,945	\$ 1,294,998
Cash received from other operations	18,646	4,942	-	23,588	9,743
Cash payments for personal services	(919,730)	(569,501)	-	(1,489,231)	-
Cash payments for contract services	(311,766)	(291,687)	(463,255)	(1,066,708)	(149,070)
Cash payments for materials and supplies	(914,206)	(326,240)	(119,880)	(1,360,326)	(829)
Cash payments for claims	-	(44,052)	-	(44,052)	(1,135,146)
Cash payments for other expenses	(1,000)	-	-	(1,000)	-
Net cash provided by (used in) operating activities.	<u>100,493</u>	<u>261,297</u>	<u>(30,574)</u>	<u>331,216</u>	<u>19,696</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(832,298)	(380,090)	-	(1,212,388)	-
Principal retirement on revenue bonds	-	(210,000)	-	(210,000)	-
Principal retirement on notes	(1,761,905)	-	-	(1,761,905)	-
Proceeds of notes	920,000	-	-	920,000	-
Proceeds of loans	832,297	383,611	-	1,215,908	-
Interest and fiscal charges	(178,259)	(63,150)	-	(241,409)	-
Net cash used in capital and related financing activities	<u>(1,020,165)</u>	<u>(269,629)</u>	<u>-</u>	<u>(1,289,794)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received	-	-	-	-	422
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>422</u>
Net increase (decrease) in cash and cash equivalents . . .	(919,672)	(8,332)	(30,574)	(958,578)	20,118
Cash and cash equivalents at beginning of year	<u>938,401</u>	<u>509,249</u>	<u>81,281</u>	<u>1,528,931</u>	<u>11,687</u>
Cash and cash equivalents at end of year	<u>\$ 18,729</u>	<u>\$ 500,917</u>	<u>\$ 50,707</u>	<u>\$ 570,353</u>	<u>\$ 31,805</u>

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CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>				Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	Activities - Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (22,476)	\$ 84,992	\$ (27,724)	\$ 34,792	\$ (130,268)
Adjustments:					
Depreciation	191,093	126,945	-	318,038	-
Changes in assets and liabilities:					
Increase in accounts receivable	(96,408)	(64,858)	(2,850)	(164,116)	-
Increase (decrease) in accounts payable	(8,499)	7,697	-	(802)	-
(Decrease) in contracts payable	-	88,655	-	88,655	-
Increase in accrued wages and benefits	354	585	-	939	-
Decrease in retainage payable	-	-	-	-	-
Increase in due to other governments.	4,398	3,599	-	7,997	-
Increase in compensated absences payable.	46,332	13,682	-	60,014	-
Decrease in judgements payable.	(14,301)	-	-	(14,301)	-
Increase in claims payable	-	-	-	-	149,964
Net cash provided by (used in) operating activities . . .	<u>\$ 100,493</u>	<u>\$ 261,297</u>	<u>\$ (30,574)</u>	<u>\$ 331,216</u>	<u>\$ 19,696</u>

Non-cash capital transactions:

The Water fund received \$47,140 in capital contributions from other governmental funds.

CITY OF COSHOCTON, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2006

	<u>Private- Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 247,530	\$ 3,266
Cash in segregated accounts	-	4,163
Receivables:		
Accounts	-	895
Accrued interest.	4,442	-
	<hr/>	<hr/>
Total assets.	<u>251,972</u>	<u>\$ 8,324</u>
 Liabilities:		
Accounts payable.	-	\$ 4,161
Undistributed monies.	-	4,163
	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>\$ 8,324</u>
 Net assets:		
Held in trust for other purposes	<u>251,972</u>	
Total net assets	<u>\$ 251,972</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, 2006

	<u>Private- Purpose Trust</u>
Additions:	
Interest	\$ 10,838
Total additions	<u>10,838</u>
 Deductions:	
Benefits.	<u>13,701</u>
Total deductions	<u>13,701</u>
Changes in net assets	(2,863)
Net assets at beginning of year	<u>254,835</u>
Net assets at end of year	<u><u>\$ 251,972</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, 2006

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organizations' governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organizations resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these 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, 2006

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

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Governments Association (OMEGA) - The City is associated with the Ohio Mid-Eastern Governments Association, 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 2006, OMEGA received \$1,752 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.

Coshocton - Franklin Joint Economic Development District (District) - The City of Coshocton has entered into a contractual agreement effective January 10, 2005 with Franklin Township to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the State of Ohio, Coshocton County, the City, the Township and the District. The District is administered by a three to five member Board of Directors consisting of one member representing the City, one member representing the Township and appointed by the Township Trustees, one member who is a business owner in the District representing the business owners in the District, one member who is a person employed within the District and one member selected by unanimous vote of all members appointed at the time. The City nor the Township have any fixed financial obligation set aside for administrative costs and expenses of the Board. The City is responsible for basic administrative costs of the Board. The Board of Directors has entered into an agreement to administer, collect and enforce the income tax on behalf of the District with the City of Coshocton and the City Income Tax Commissioner. Upon termination of the contractual agreement, any property, assets and obligations of the District shall be divided equally between the parties, except that any items of infrastructure constructed by or for anybody shall be retained by that party.

Coshocton - Tuscarawas Joint Economic Development District (District) - The City of Coshocton has entered into a contractual agreement effective January 12, 2005 with Tuscarawas Township to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the State of Ohio, Coshocton County, the City, the Township and the District. The District is administered by a three to five member Board of Directors consisting of one member representing the City, one member representing the Township, one member who is a business owner in the District representing the business owners in the District, one member who is a person employed within the District, and one member selected by unanimous vote of all members appointed at the time. The City nor the Township have any fixed financial obligation set aside for administrative costs and expenses of the Board. The City is responsible for basic administrative costs of the Board. The Board of Directors has entered into an agreement to administer, collect and enforce the income tax on behalf of the District with the City of Coshocton and City Income Tax Commissioner. Upon termination of the contractual agreement, any property, assets and obligations of the District shall be divided equally between the parties, except that any items of infrastructure constructed by or for anybody shall be retained by that party.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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.

Fire Fund - The fire fund accounts for income tax monies collected and used for general fire operations.

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

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

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

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

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. The City has two agency funds that are used to account for State Patrol and Bid Bonds.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

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 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 2006.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

G. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to repurchase agreements, nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (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, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amount to \$40,818 which includes \$37,757 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.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

H. Inventories of Materials and Supplies

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

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

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

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

J. Compensated Absences

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

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

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

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

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

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 “advances to/from other funds” on the financial statements 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. The internal balance reported on the financial statements relates to the consolidation of the internal service fund with governmental activities.

M. 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, debt service, 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.

N. 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.

O. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or 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. The Water enterprise fund received contributions of capital of \$47,140 during 2006.

P. Net Assets

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

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2006, net assets restricted by enabling legislation were \$7,331 in the statement of net assets.

Q. Bond Issuance Cost and Accounting Loss

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Fund Deficits

At December 31, 2006, the Health Insurance internal service fund reported deficit net assets in the amount of \$71,767. Management is currently analyzing the operations of this fund to determine appropriate action to alleviate the deficit.

C. Compliance

Contrary to Ohio Revised Code Section 5705.41(B), expenditures plus outstanding encumbrances exceeded appropriations in the Water Fund by \$832,229.

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded estimated resources throughout the year and at year end for several funds.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool, STAR Ohio;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$1,212,044, exclusive of the \$969,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$941,312 of the City's bank balance of \$1,341,312 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

B. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 969,000	\$ 969,000
STAR Ohio	<u>233,074</u>	<u>233,074</u>
	<u>\$ 1,202,074</u>	<u>\$ 1,202,074</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 969,000	80.61%
STAR Ohio	<u>233,074</u>	<u>19.39%</u>
	<u>\$ 1,202,074</u>	<u>100.00%</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,212,044
Investments	1,202,074
Cash in segregated accounts	<u>4,163</u>
Total	<u>\$ 2,418,281</u>
 <u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,592,969
Business type activities	570,353
Private-purpose trust fund	247,530
Agency funds	<u>7,429</u>
Total	<u>\$ 2,418,281</u>

NOTE 5 - JUDGEMENTS PAYABLE

On September 17, 2001, the City entered into an agreement with Clow Water Systems Corporation (CLOW). This agreement was intended to settle the overpayment for water usage by CLOW to the City. The overpayment resulted in a \$575,000 credit to CLOW. Per the agreement, the City is required to pay CLOW \$5,000 per month for 24 months beginning with the July 2001 payment. The City water department will credit water usage at CLOW until the remainder of the overpayment is satisfied. As of December 31, 2006, the outstanding judgments were paid in full.

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.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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, 2006 was \$2.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 173,694,480
Public utility tangible personal property	6,518,960
Tangible personal property	<u>13,882,431</u>
Total assessed valuation	<u>\$ 194,095,871</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. 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, 2006, 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, 2006, as well as intended to finance fiscal 2006 operations.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 7 - RECEIVABLES - (Continued)

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

Governmental Activities:

Income taxes	\$1,149,560
Real and other taxes	568,180
Accounts	34,097
Accrued interest	14,147
Special assessments	21,238
Due from other governments	1,073,989

Business-type Activities:

Accounts	834,757
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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, 2006 was \$21,238.

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies a municipal income tax of one and a half 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 revenues are received by the general fund, Street special revenue fund, Fire special revenue fund, JEDD special revenue fund, Fire capital projects fund, Capital Improvement capital projects fund, and Fire debt service fund.

NOTE 9 - LODGING TAX

On February 27, 2006 City Council passed a 3% lodging tax. This allows the City to tax all transactions by which lodging in a hotel, motel, rooming house and other lodging accommodations are furnished to transit guests. 80% of the revenues from this tax are restricted to the Coshocton County Convention and Visitors Bureau while the remaining 20% of collections remains in the general fund.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS

A. Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 960,438	\$ -	\$ -	\$ 960,438
Total capital assets, not being depreciated	<u>960,438</u>	<u>-</u>	<u>-</u>	<u>960,438</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	32,873	25,170	-	58,043
Buildings and improvements	2,718,209	117,860	-	2,836,069
Furniture and equipment	826,586	25,604	(10,500)	841,690
Vehicles	907,126	421,537	(31,732)	1,296,931
Infrastructure	<u>7,535,477</u>	<u>-</u>	<u>-</u>	<u>7,535,477</u>
Total capital assets, being depreciated	<u>12,020,271</u>	<u>590,171</u>	<u>(42,232)</u>	<u>12,568,210</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(2,630)	(1,315)	-	(3,945)
Buildings and improvements	(1,076,835)	(70,610)	-	(1,147,445)
Furniture and equipment	(546,026)	(49,050)	8,400	(586,676)
Vehicles	(851,865)	(40,920)	31,732	(861,053)
Infrastructure	<u>(4,553,437)</u>	<u>(260,809)</u>	<u>-</u>	<u>(4,814,246)</u>
Total accumulated depreciation	<u>(7,030,793)</u>	<u>(422,704)</u>	<u>40,132</u>	<u>(7,413,365)</u>
Total capital assets, being depreciated, net	<u>4,989,478</u>	<u>167,467</u>	<u>(2,100)</u>	<u>5,154,845</u>
Governmental activities capital assets, net	<u>\$ 5,949,916</u>	<u>\$ 167,467</u>	<u>\$ (2,100)</u>	<u>\$ 6,115,283</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 20,578
Security of persons and property	67,109
Public health and welfare	6,309
Transportation	317,261
Leisure time activity	<u>11,447</u>
Total depreciation expense - governmental activities	<u>\$422,704</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance			Balance
<u>Business-type Activities:</u>	<u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 34,500	\$ -	\$ -	\$ 34,500
Construction in progress	<u>8,743,181</u>	<u>1,212,388</u>	<u>-</u>	<u>9,955,569</u>
Total capital assets, not being depreciated	<u>8,777,681</u>	<u>1,212,388</u>	<u>-</u>	<u>9,990,069</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	46,852	-	-	46,852
Buildings and improvements	5,262,273	47,140	-	5,309,413
Furniture and equipment	3,461,120	-	-	3,461,120
Vehicles	418,010	-	(14,589)	403,421
Infrastructure	<u>11,967,727</u>	<u>-</u>	<u>-</u>	<u>11,967,727</u>
Total capital assets, being depreciated	<u>21,155,982</u>	<u>47,140</u>	<u>(14,589)</u>	<u>21,188,533</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(36,425)	(1,490)	-	(37,915)
Buildings and improvements	(2,840,512)	(127,800)	-	(2,968,312)
Furniture and equipment	(3,242,887)	(47,408)	-	(3,290,295)
Vehicles	(317,418)	(24,869)	14,589	(327,698)
Infrastructure	<u>(10,166,310)</u>	<u>(116,471)</u>	<u>-</u>	<u>(10,282,781)</u>
Total accumulated depreciation	<u>(16,603,552)</u>	<u>(318,038)</u>	<u>14,589</u>	<u>(16,907,001)</u>
Total capital assets, being depreciated, net	<u>4,552,430</u>	<u>(270,898)</u>	<u>-</u>	<u>4,281,532</u>
Business-type activities capital assets, net	<u>\$ 13,330,111</u>	<u>\$ 941,490</u>	<u>\$ -</u>	<u>\$ 14,271,601</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to business-type activities as follows:

Business-type activities

Water	\$ 191,093
Sewer	<u>126,945</u>
Total depreciation expense - business-type activities	<u>\$ 318,038</u>

NOTE 11 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During 2006, the City entered into a capital lease for a new fire truck. In a prior year, the City entered into a capital lease for a new copier. 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 furniture and equipment and vehicles have been capitalized in the amount of \$408,528. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$4,265, leaving a current book value of \$404,263. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$1,946 paid by the general fund and \$72,655 paid by the fire capital improvement fund.

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, 2006:

<u>Year Ending December 31,</u>	<u>Principal and Interest</u>
2007	\$ 86,356
2008	86,357
2009	86,356
2010	<u>86,357</u>
Total future minimum lease payments	345,426
Less: amount representing interest	<u>(37,639)</u>
Present value of net minimum lease payments	<u>\$307,787</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - 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, 2006, the liability for unpaid compensated absences was \$892,184 for the entire City, which is reported as a fund liability and/or on the government-wide financial statements as applicable.

NOTE 13 - LONG-TERM OBLIGATIONS

During the fiscal year 2006, the following changes occurred in the City's long-term obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
<u>Governmental Activities:</u>	<u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u>	<u>Due in</u>
					<u>One Year</u>
<u>General obligation bonds:</u>					
1998 Fire Station					
various interest rates	\$ 610,000	\$ -	\$ (145,000)	\$ 465,000	\$ 150,000
<u>Special assessment bond:</u>					
1986 Downtown Street					
Series A - 7 3/8%	20,000	-	(20,000)	-	-
Total - bonds	<u>630,000</u>	<u>-</u>	<u>(165,000)</u>	<u>465,000</u>	<u>150,000</u>
<u>Other long-term obligations:</u>					
Compensated absences	584,943	97,672	(83,396)	599,219	91,985
Capital lease obligation	1,946	380,442	(74,601)	307,787	71,664
Total other long-term obligations	<u>586,889</u>	<u>478,114</u>	<u>(157,997)</u>	<u>907,006</u>	<u>163,649</u>
Total governmental activities					
long-term obligations	<u>\$ 1,216,889</u>	<u>\$ 478,114</u>	<u>\$ (322,997)</u>	<u>\$ 1,372,006</u>	<u>\$ 313,649</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>Revenue Bonds</u>					
2001 Sewer System Improvement					
3.25% to 4.25%	\$ 1,625,000	\$ -	\$ (210,000)	\$ 1,415,000	\$215,000
Total - revenue bonds	<u>1,625,000</u>	<u>-</u>	<u>(210,000)</u>	<u>1,415,000</u>	<u>215,000</u>
<u>OWDA loans</u>					
OWDA loan 3-5%	8,188,226	832,297	(341,905)	8,678,618	-
OWDA loan 3%	<u>-</u>	<u>383,611</u>	<u>-</u>	<u>383,611</u>	<u>-</u>
Total OWDA loans	<u>8,188,226</u>	<u>1,215,908</u>	<u>(341,905)</u>	<u>9,062,229</u>	<u>-</u>
<u>Other long-term obligations</u>					
Compensated absences	<u>232,951</u>	<u>90,801</u>	<u>(30,787)</u>	<u>292,965</u>	<u>43,629</u>
Total other long-term obligations	<u>232,951</u>	<u>90,801</u>	<u>(30,787)</u>	<u>292,965</u>	<u>43,629</u>
Total business-type activities					
long-term obligations	<u>\$ 10,046,177</u>	<u>\$ 1,306,709</u>	<u>\$ (582,692)</u>	10,770,194	<u>\$258,629</u>
Less: unamortized deferred charges on refunding				<u>(79,192)</u>	
Total reported on the Statement of Net Assets				<u>\$ 10,691,002</u>	

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

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 are reported in the Statement of Net Assets and will be paid from the fund from which the employee's salaries are paid which will primarily be the General fund, Street fund, Home Health fund, Sewer fund and Water fund.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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.

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.

In fiscal year 2004, the City entered into a debt financing arrangement 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, 2006, the City has outstanding borrowings of \$8,678,618. As of December 31, 2006, 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.

In fiscal year 2006, the City entered into a debt financing arrangement through the OWDA to fund ethanol plant improvements. The amounts due to the OWDA are payable solely from sewer revenues. The loan agreement functions similar to a line-of-credit agreement. At December 31, 2006, the City has outstanding borrowings of \$383,611. As of December 31, 2006, the future annual debt service principal and interest payments for the loan is unavailable because monies related to the project are still being disbursed and the loan is not finalized.

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$20,000,594. Principal and interest requirements to retire the City's bonds outstanding at December 31, 2006 were:

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 150,000	\$ 19,535	\$ 169,535	\$ 215,000	\$ 56,010	\$ 271,010
2008	155,000	13,310	168,310	225,000	48,270	273,270
2009	160,000	6,800	166,800	230,000	39,720	269,720
2010	-	-	-	240,000	30,750	270,750
2011	-	-	-	250,000	10,838	260,838
2012	-	-	-	255,000	21,150	276,150
Total	<u>\$ 465,000</u>	<u>\$ 39,645</u>	<u>\$ 504,645</u>	<u>\$ 1,415,000</u>	<u>\$ 206,738</u>	<u>\$ 1,621,738</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2006, follows:

	<u>Outstanding</u> <u>12/31/2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2006</u>
<u>Governmental Activities:</u>				
Armory Note Payable	\$ -	\$ 165,000	\$ -	\$ 165,000
<u>Business-Type Activities:</u>				
Water Note - 3.25%	1,420,000	-	(1,420,000)	-
Water Note - 4.25%	<u>-</u>	<u>920,000</u>	<u>-</u>	<u>920,000</u>
Total	<u>\$ 1,420,000</u>	<u>\$ 1,085,000</u>	<u>\$ (1,420,000)</u>	<u>\$ 1,085,000</u>

On May 17, 2006 the City issued a \$165,000 short term note for the purpose of buying an armory building. The note has an interest rate of 4.5% and matures on May 17, 2007. The note was received into the general fund, which will make the principal and interest payments.

The water 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, 2006 matures February 21, 2007.

NOTE 15 - 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 2006, the City contracted for various types of insurance as follows:

<u>Company</u>	<u>Type</u>	<u>Coverage</u>
Rinehart, Walters, Danner & Associates	Public Officials Liability	\$ 1,000,000
	Umbrella Liability	1,000,000
	Comprehensive Crime	75,000
	Commercial Inland Marine	1,243,446
	Wrongful Acts	1,000,000
	EDP	219,367
	Property	28,916,047
	General Fire Liability/Rescue	1,420,226
	Automobile	1,000,000
	General Liability	1,000,000

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - RISK MANAGEMENT - (Continued)

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.

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 \$375,574 reported in the internal service fund at December 31, 2006, was estimated based on billings in January through May 2006 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 2005 and 2006 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 225,610	\$ 1,285,110	\$ (1,135,146)	\$ 375,574
2005	88,718	1,008,602	(871,710)	225,610

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - DEFINED BENEFIT PENSION PLAN

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$238,220, \$242,308, and \$228,958, respectively; 87.94% has been contributed for 2006, and 100% for 2005 and 2004. \$28,731 represents the unpaid contribution for 2006, is recorded as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2006.

B. Ohio Police and Fire Pension Fund

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to OP&F for pension obligation for the years ended December 31, 2006, 2005, and 2004 were \$136,952, \$128,530, and \$119,289, respectively; 71.20% has been contributed for 2006 and 100% for the years 2005 and 2004. \$39,437 representing the unpaid contributions for 2006 is recorded as a liability within the respective funds.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$116,520. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

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 the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits was \$65,341 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 - 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.

	<u>General</u>	<u>Fire</u>
Budget basis	\$ (73,361)	\$ (10,368)
Net adjustment for revenue accruals	(2,307)	50,563
Net adjustment for expenditure accruals	21,057	24,644
Net adjustment for other financing sources	(165,000)	-
Adjustment for encumbrances	<u>4,051</u>	<u>1,271</u>
GAAP basis	<u>\$ (215,560)</u>	<u>\$ 66,110</u>

NOTE 19 - 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 are 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, 2006.

B. Litigation

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

NOTE 20 - SUBSEQUENT EVENTS

- A.** Ordinance 3-07 approved the issuance of \$920,000 in anticipation of bonds for the purpose of acquiring, constructing, expanding and rehabilitating the municipal water treatment plant and distribution system.
- B.** A letter dated May 2, 2007 from the Ohio Environmental Protection Agency approved the City's request to extend payment on OWDA loan number 3963 to June 1, 2008.

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Mary Taylor, CPA

Auditor of State

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

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

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Coshocton, Coshocton County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider Finding Numbers 2006-001 through 2006-003 described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe Finding Number 2006-001 is also a material weakness.

We also noted certain matters related to internal control over financial reporting that we have reported to the City's management in a separate letter dated September 25, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-002 and 2006-003.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

We also noted instances of noncompliance or other matters that we reported to the City's management in a separate letter dated September 25, 2007.

We intend this report solely for the information and use of the audit committee, management and the City Council. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 25, 2007

CITY OF COSHOCTON
COSHOCTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Material Weakness

Financial Reporting

As a result of the audit procedures performed, errors were noted in the City's financial statements and GAAP conversion that required audit adjustments and reclassifications.

In 2006, a reclass was made in the General Fund for note proceeds being recorded as other revenue in the amount of \$165,000 and GAAP material adjustments were made in the General fund to bring on note proceeds and notes payable for the \$165,000; in the RFI Funds adjustments were made in the contracts payable for \$410,000, the intergovernmental receivables for \$410,000 and the claims payable in the amount of \$271,964 and in the Refuse Fund an accounts payable adjustment was made for \$38,534.

Additionally, a fund cash adjustment was required, due to the City initially making payroll expenditures totally \$108,421 from the Fire Capital Improvement Fund. Payroll expenditures are not eligible expenditures from the Fire Capital Improvement Fund. The General Fund has been subsequently adjusted to reflect payroll expenditures totaling \$108,421.

Sound financial reporting is the responsibility of the City Auditor, Mayor and City Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To help ensure the City's financial statements and notes to the financial statements are complete and accurate, the City should adopt policies and procedures, including a final review of the statements and notes by the City Auditor, Mayor and City Council, to identify and correct errors and omissions.

Official's Response: The City Auditor's Office agrees these payroll expenditures should not have been made from the Fire Capital Improvement Fund. The General Fund will be adjusted accordingly.

FINDING NUMBER 2006-002

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2006, object level expenditures plus outstanding encumbrances exceeded appropriations within the following fund:

Water Fund – Capital Outlay 701-5515-52501	\$832,229
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FINDING NUMBER 2006-002 (Continued)

This occurred because the City did not initially record expenditures of an OWDA loan and adopt corresponding appropriations.

The City Auditor should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid overspending. In addition, the City Auditor should record OWDA proceeds whether paid directly to the City or the vendor. This will help strengthen City Council's ability to effectively monitor actual expenditures versus appropriations.

Official's Response: The City Auditor's Office will record OWDA receipt and expenditures activity in the future.

FINDING NUMBER 2006-003

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 5705.39 requires total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the City to obtain a County Auditor's certificate stating total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During 2006, total appropriations exceeded total estimated resources at year end and throughout the year as follows:

Fund	Estimated Resources	Appropriations	Variance
At 1/1/2006			
Roscoe Cemetery	\$26,216	\$35,000	(\$8,784)
JEDD – Tusc	69,326	80,000	(10,674)
JEDD – Franklin	55,000	80,000	(25,000)
Capital Improvement Fund	236,521	280,000	(43,479)
Water Plant	71,281	2,165,000	(2,093,719)
Ethanol Plant	4,334,980	5,892,751	(1,557,771)
State Patrol Transfer	16,901	30,000	(13,099)
At 2/3/2006			
State Patrol Transfer	16,901	30,000	(13,099)

FINDING NUMBER 2006-003 (Continued)

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
At 6/12/2006			
Water Fund	\$2,697,724	\$3,021,039	(\$323,315)
Lodging Tax	46,000	66,700	(20,700)
State Patrol Transfer	16,901	30,000	(13,099)
At 12/31/2006			
Fire Fund	1,108,628	1,115,650	(7,022)
CDGB	503,696	720,198	(216,502)
Roscoe Cemetery	29,216	35,000	(5,784)
JEDD – Tusc	94,326	157,000	(62,674)
JEDD – Franklin	10,000	80,000	(70,000)
Water Debt Fund	0	70,000	(70,000)
Water Fund	2,497,724	3,102,514	(604,790)
Water Contingency	464,013	467,000	(2,987)
Ethanol Plant	134,980	1,358,000	(1,223,020)
State Patrol Transfer	23,901	30,000	(6,099)
Lodging Tax	46,000	66,700	(20,700)

For the future, the City Auditor should frequently compare Estimated Resources to Appropriations throughout the year. This will help ensure the City does not overspend available financial resources.

Official's Response: The City Auditor's Office will more closely monitor and compare appropriations and estimated resources for the future to help prevent these negative variances.

**CITY OF COSHOCTON
COSHOCTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Ohio Rev. Code Section 5705.41 (D) – 29% of the expenditures tested were not properly certified by the fiscal officer.	Yes	Corrected.



Mary Taylor, CPA
Auditor of State

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
NOVEMBER 15, 2007**