



**Auditor of State
Betty Montgomery**

CITY OF COSHOCTON
COSHOCTON COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying 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, 2005, 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, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Street Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City restated the net assets of the governmental activities at December 31, 2004 to retroactively report infrastructure which was previously not reported.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Betty Montgomery
Auditor of State

July 14, 2006

CITY OF COSHOCTON, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 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, 2005. 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 2005 are as follows:

- The total net assets of the City decreased \$447,365. Net assets of governmental activities decreased \$344,338 or 4.63% over 2004 and net assets of business-type activities decreased \$103,027 or 2.53% over 2004.
- General revenues accounted for \$5,281,247 of total governmental activities revenue. Program specific revenues accounted for \$2,005,118 or 27.52% of total governmental activities revenue.
- The City had \$7,630,703 in expenses related to governmental activities; \$2,005,118 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,625,585 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,281,247.
- The general fund had revenues of \$4,270,860 in 2005. This represents a decrease of \$431,865 from 2004 revenues. The expenditures of the general fund, which totaled \$4,314,238 in 2005, decreased \$185,539 from 2004. The net decrease in fund balance for the general fund was \$43,378 or 12.11%.
- The street fund had revenues of \$677,447 in 2005. The expenditures of the street fund, totaled \$804,016 in 2005. The net decrease in fund balance for the street fund was \$126,569 or 52.90%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, decreased in 2005 by \$103,027.
- The water fund, a major enterprise fund, had operating revenues of \$2,119,733 in 2005 and operating expenditures of \$2,196,006 in 2005. The net assets of the water fund decreased \$294,537 from 2004.
- The sewer fund, a major enterprise fund, had operating revenues of \$1,391,651 in 2005 and operating expenditures of \$1,572,196 in 2005. The net assets of the sewer fund increased \$229,416 from 2004.
- In the general fund, the actual revenues came in \$612,109 lower than they were in the final budget and actual expenditures were \$550,221 less than the amount in the final budget. Budgeted revenues increased \$642,396 from the original to the final budget due primarily to an increase in projected income taxes and intergovernmental revenue. Budgeted expenditures increased \$346,676 from the original to the final budget due primarily to an increase in the estimated cost of security of persons and property 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, 2005
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 2005?" 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 19-21 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, 2005 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 Street fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 22-27 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 28-31 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 32-33 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 35-64 of this report.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2005 and 2004:

	Net Assets					
	Governmental	Business-type	Restated		2005	2004
	Activities	Activities	Governmental	Business-type	Total	Total
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Assets</u>						
Current and other assets	\$ 3,388,817	\$ 2,212,062	\$ 3,353,099	\$ 2,957,522	\$ 5,600,879	\$ 6,310,621
Capital assets	<u>5,949,916</u>	<u>13,330,111</u>	<u>6,652,128</u>	<u>9,537,841</u>	<u>19,280,027</u>	<u>16,189,969</u>
Total assets	<u>9,338,733</u>	<u>15,542,173</u>	<u>10,005,227</u>	<u>12,495,363</u>	<u>24,880,906</u>	<u>22,500,590</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,216,889	9,953,786	1,321,234	6,090,082	11,170,675	7,411,316
Other liabilities	<u>1,022,567</u>	<u>1,623,356</u>	<u>961,798</u>	<u>2,337,223</u>	<u>2,645,923</u>	<u>3,299,021</u>
Total liabilities	<u>2,239,456</u>	<u>11,577,142</u>	<u>2,283,032</u>	<u>8,427,305</u>	<u>13,816,598</u>	<u>10,710,337</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,317,970	3,609,285	5,858,403	3,698,518	8,927,255	9,556,921
Restricted	1,425,377	-	1,503,786	-	1,425,377	1,503,786
Unrestricted (deficit)	<u>355,930</u>	<u>355,746</u>	<u>360,006</u>	<u>369,540</u>	<u>711,676</u>	<u>729,546</u>
Total net assets	<u>\$ 7,099,277</u>	<u>\$ 3,965,031</u>	<u>\$ 7,722,195</u>	<u>\$ 4,068,058</u>	<u>\$ 11,064,308</u>	<u>\$ 11,790,253</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$11,064,308. At year-end, net assets were \$7,099,277 and \$3,965,031 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 77.49% 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, 2005, were \$5,317,970 and \$3,609,285 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$1,425,377, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$355,930 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	Change in Net Assets					
			Restated			
	Governmental Activities 2005	Business-type Activities 2005	Governmental Activities 2004	Business-type Activities 2004	2005 Total	2004 Total
Revenues						
Program revenues:						
Charges for services	\$ 816,291	\$ 4,035,842	\$ 853,664	\$ 4,091,279	\$ 4,852,133	\$ 4,944,943
Operating grants and contributions	1,188,827	-	778,170	-	1,188,827	778,170
Capital grants and contributions	-	533,137	-	3,083,120	533,137	3,083,120
Total program revenues	<u>2,005,118</u>	<u>4,568,979</u>	<u>1,631,834</u>	<u>7,174,399</u>	<u>6,574,097</u>	<u>8,806,233</u>
General revenues:						
Property taxes	491,955	-	495,871	-	491,955	495,871
Income taxes	3,592,896	-	2,968,510	-	3,592,896	2,968,510
JEDD revenue	50,031	-	-	-	50,031	-
Unrestricted grants and entitlements	635,909	-	796,111	-	635,909	796,111
Investment earnings	90,831	-	38,626	-	90,831	38,626
Miscellaneous	419,625	25,835	665,686	19,217	445,460	684,903
Total general revenues	<u>5,281,247</u>	<u>25,835</u>	<u>4,964,804</u>	<u>19,217</u>	<u>5,307,082</u>	<u>4,984,021</u>
Total revenues	<u>7,286,365</u>	<u>4,594,814</u>	<u>6,596,638</u>	<u>7,193,616</u>	<u>11,881,179</u>	<u>13,790,254</u>
Expenses:						
General government	1,807,553	-	1,641,059	-	1,807,553	1,641,059
Security of persons and property	2,936,932	-	2,709,258	-	2,936,932	2,709,258
Public health and welfare	829,075	-	769,771	-	829,075	769,771
Transportation	1,333,778	-	1,106,538	-	1,333,778	1,106,538
Community environment	15,539	-	12,793	-	15,539	12,793
Leisure time activity	84,273	-	199,672	-	84,273	199,672
Urban redevelopment and housing	590,107	-	282,046	-	590,107	282,046
Interest and fiscal charges	33,446	-	39,958	-	33,446	39,958
Water	-	2,479,188	-	5,609,807	2,479,188	5,609,807
Sewer	-	1,680,024	-	1,346,630	1,680,024	1,346,630
Refuse	-	538,629	-	560,183	538,629	560,183
Total expenses	<u>7,630,703</u>	<u>4,697,841</u>	<u>6,761,095</u>	<u>7,516,620</u>	<u>12,328,544</u>	<u>14,277,715</u>
Increase (decrease) in net assets	(344,338)	(103,027)	(164,457)	(323,004)	(447,365)	(487,461)
Net assets at beginning of year (restated)	<u>7,443,615</u>	<u>4,068,058</u>	<u>7,608,072</u>	<u>4,391,062</u>	<u>11,511,673</u>	<u>11,999,134</u>
Net assets at end 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>

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Activities

Governmental activities net assets decreased \$344,338 in 2005. This decrease is a result of increasing expenses versus amounts reported in the prior year.

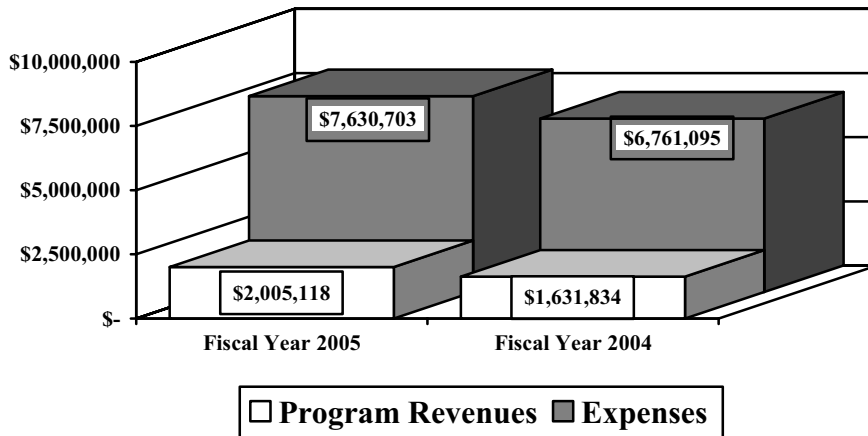
Security of persons and property, which primarily supports the operations of the fire department accounted for \$2,936,932 of the total expenses of the City. General government expenses totaled \$1,807,553. General government expenses were partially funded by \$232,731 in direct charges to users of the services. Transportation expenses were partially funded by \$526,277 in operating grants and contributions.

The state and federal government contributed to the City a total of \$1,188,827 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$526,277 subsidized transportation programs and \$599,071 subsidized urban redevelopment and housing activities.

General revenues totaled \$5,281,247, and amounted to 72.48% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,084,851. 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 \$635,909.

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 2005.

Governmental Activities – Program Revenues vs. Total Expenses



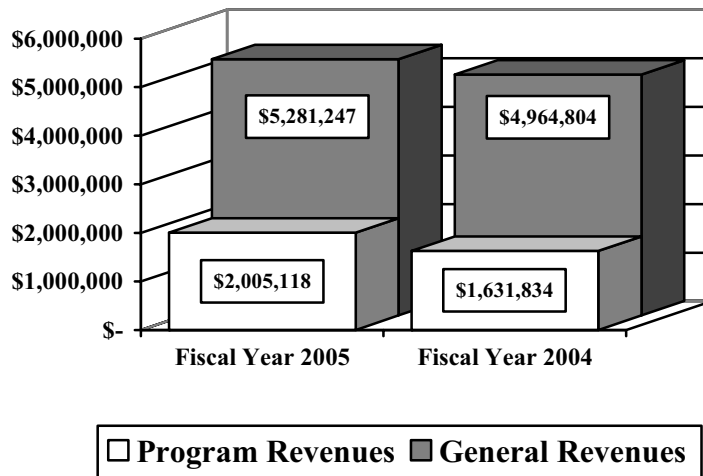
CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2004</u>
Program Expenses:				
General government	\$ 1,807,553	\$ 1,511,343	\$ 1,641,059	\$ 1,362,060
Security of persons and property	2,936,932	2,936,932	2,709,258	2,703,642
Public health and welfare	829,075	246,447	769,771	195,629
Transportation	1,333,778	807,501	1,106,538	577,416
Community environment	15,539	14,607	12,793	12,270
Leisure time activity	84,273	84,273	199,672	199,672
Urban redevelopment and housing	590,107	(8,964)	282,046	38,614
Interest and fiscal charges	33,446	33,446	39,958	39,958
Total	<u>\$ 7,630,703</u>	<u>\$ 5,625,585</u>	<u>\$ 6,761,095</u>	<u>\$ 5,129,261</u>

The dependence upon general revenues for governmental activities is apparent, with 69.21% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005 and 2004.

Governmental Activities – General and Program Revenues

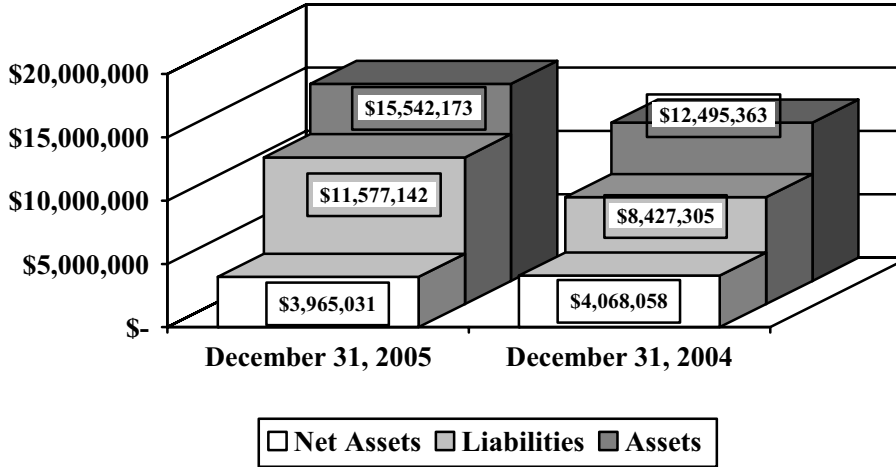


CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$4,568,979, general revenues of \$25,835 and expenses of \$4,697,841 for 2005. 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 22) reported a combined fund balance of \$1,589,549 which is \$235 below last year's total of \$1,589,784. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 and 2004 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/05</u>	Fund Balances <u>12/31/04</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 314,880	\$ 358,258	\$ (43,378)
Street	112,714	239,283	(126,569)
Other nonmajor governmental funds	<u>1,161,955</u>	<u>992,243</u>	<u>169,712</u>
Total	<u>\$ 1,589,549</u>	<u>\$ 1,589,784</u>	<u>\$ (235)</u>

CITY OF COSHOCTON, OHIO

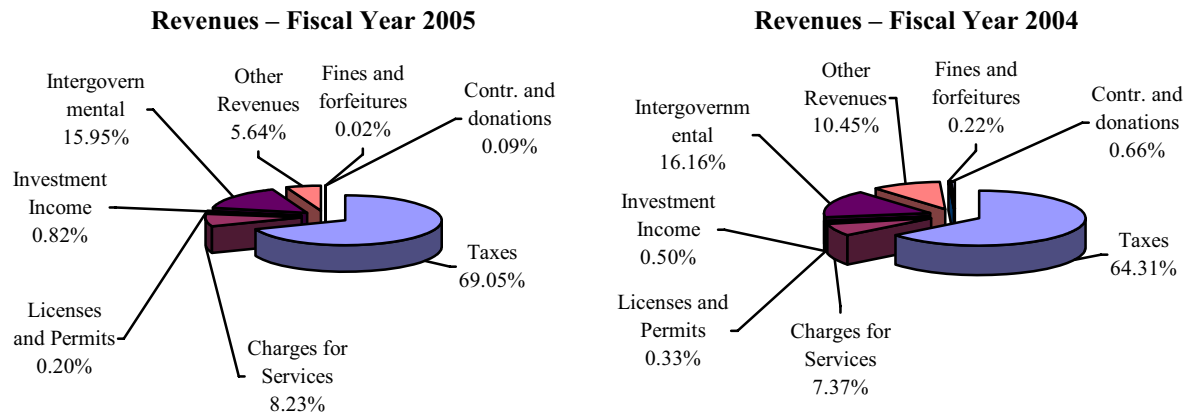
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

General Fund

The City's general fund balance decreased \$43,378. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Revenues			
Taxes	\$ 2,949,209	\$ 3,024,493	(2.49) %
Charges for services	351,236	346,491	1.37 %
Licenses and permits	8,677	15,604	(44.39) %
Fines and forfeitures	671	10,246	(93.45) %
Investment income	34,869	23,584	47.85 %
Contributions and donations	3,850	31,087	(87.62) %
Intergovernmental	681,375	759,805	(10.32) %
Other	240,973	491,415	(50.96) %
Total	<u>\$ 4,270,860</u>	<u>\$ 4,702,725</u>	(9.18) %

Tax revenue represents 69.05% of all general fund revenue. The increase in investment income is due to increased interest rates for the City investments.



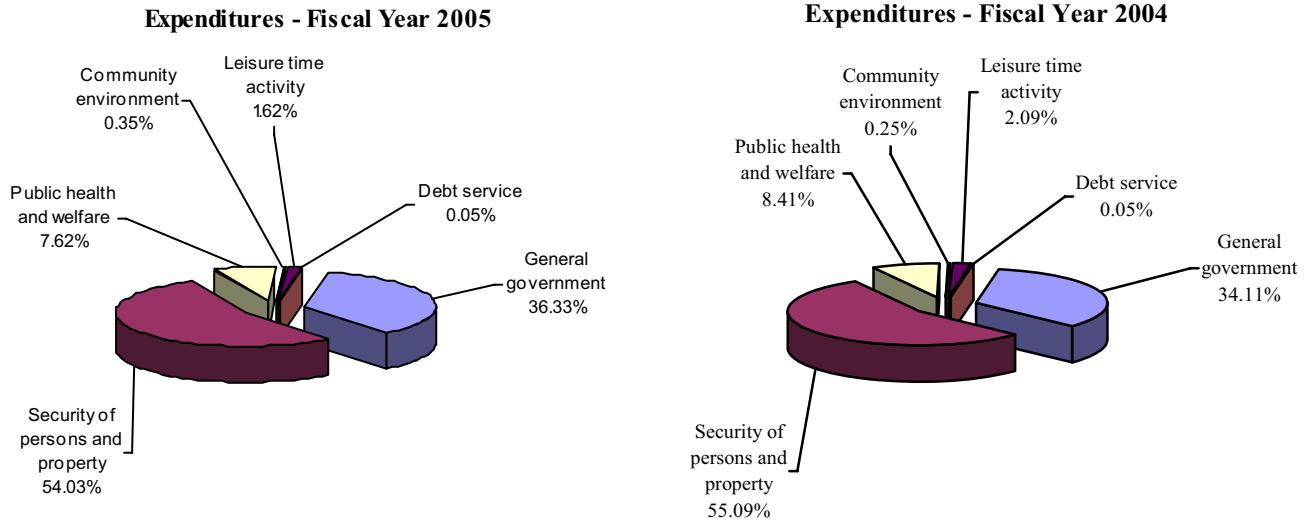
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
Expenditures			
General government	\$ 1,567,481	\$ 1,534,700	2.14 %
Security of persons and property	2,330,892	2,479,465	(5.99) %
Public health and welfare	328,836	378,410	(13.10) %
Community environment	15,139	11,075	36.70 %
Leisure time activity	69,790	94,027	(25.78) %
Debt service	2,100	2,100	-
Total	<u>\$ 4,314,238</u>	<u>\$ 4,499,777</u>	(4.12) %

The only increases were in the areas of general government and community environment. The City reduced total expenditures by 4.12%. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to the City's ability to manage costs associated with wages and benefits.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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 street 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 increased \$642,396 from \$4,265,317 to \$4,907,713. Actual revenues of \$4,295,604 were less than final budgeted revenues by \$612,109. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$550,221 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 business-type funds (as presented on the Statement of Net Assets on page 28) reported a combined net assets of \$3,965,031, including an internal balance of \$(38,034) which is \$103,027 below last year's total of \$4,068,058. The schedule below indicates the net assets and the total change in net assets as of December 31, 2005 for all major and nonmajor business-type funds.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	<u>Net Assets</u> <u>12/31/05</u>	<u>Net Assets</u> <u>12/31/04</u>	<u>Increase</u> <u>(Decrease)</u>
Major Funds:			
Water	\$ 2,428,659	\$ 2,723,196	\$ (294,537)
Sewer	1,374,227	1,144,811	229,416
Other Business-type funds	<u>200,179</u>	<u>188,515</u>	<u>11,664</u>
Total	<u>\$ 4,003,065</u>	<u>\$ 4,056,522</u>	<u>\$ (53,457)</u>

Water Fund

The City's Water fund net assets decreased \$294,537 due mainly to debt service payments that were made out of the fund. The following tables illustrate the revenues and expenses of the Water fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Revenues</u>			
Charges for services	\$ 2,100,071	\$ 2,155,357	(2.57) %
Other	<u>19,662</u>	<u>17,354</u>	13.30 %
Total	<u>\$ 2,119,733</u>	<u>\$ 2,172,711</u>	(2.44) %

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Expenditures</u>			
Personal services	\$ 921,408	\$ 974,823	(5.48) %
Contractual services	197,177	3,196,655	(93.83) %
Materials and supplies	888,451	1,192,521	(25.50) %
Depreciation	188,557	201,988	(6.65) %
Other	<u>413</u>	<u>160</u>	158.13 %
Total	<u>\$ 2,196,006</u>	<u>\$ 5,566,147</u>	(60.55) %

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Nonoperating Revenues (Expenditures)</u>			
Interest expense and fiscal charges	\$ (251,401)	\$ (64,320)	290.86 %
Intergovernmental	<u>33,137</u>	<u>3,083,120</u>	(98.93) %
Total	<u>\$ (218,264)</u>	<u>\$ 3,018,800</u>	(107.23) %

Sewer Fund

The City's sewer fund net assets increased \$229,416 due to intergovernmental non-operating revenues in the fund. The following tables illustrate the revenues and expenses of the sewer fund.

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Revenues</u>			
Charges for services	\$ 1,385,478	\$ 1,393,611	(0.58) %
Other	<u>6,173</u>	<u>1,863</u>	231.35 %
Total	<u>\$ 1,391,651</u>	<u>\$ 1,395,474</u>	(0.27) %
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Operating Expenditures</u>			
Personal services	\$ 615,231	\$ 548,313	12.20 %
Contractual services	464,106	203,934	127.58 %
Materials and supplies	315,416	386,576	(18.41) %
Other	55,020	-	100.00 %
Depreciation	<u>122,423</u>	<u>122,423</u>	- %
Total	<u>\$ 1,572,196</u>	<u>\$ 1,261,246</u>	24.65 %
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Nonoperating Revenues (Expenditures)</u>			
Intergovernmental	\$ 500,000	\$ -	100.00 %
Interest expense and fiscal charges	<u>(90,039)</u>	<u>(97,177)</u>	(7.35) %
Total	<u>\$ 409,961</u>	<u>\$ (97,177)</u>	521.87 %

CITY OF COSHOCTON, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

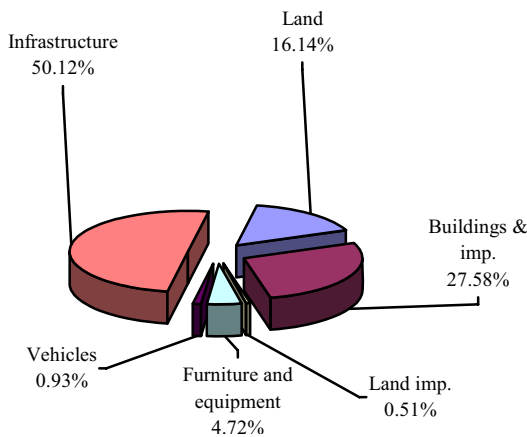
At the end of fiscal 2005, the City had \$19,280,027 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, furniture and equipment, vehicles, infrastructure and construction in progress. Of this total, \$5,949,916 was reported in governmental activities and \$13,330,111 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2005 balances compared to 2004 that was restated (see Note 3B):

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

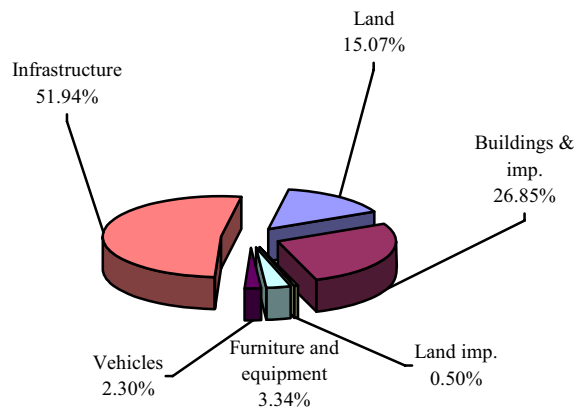
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>Restated</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
		<u>2004</u>				
Land	\$ 960,438	\$ 960,438	\$ 34,500	\$ 34,500	\$ 994,938	\$ 994,938
Land improvements	30,243	31,558	10,427	11,917	40,670	43,475
Buildings and improvements	1,641,374	1,711,985	2,421,761	2,549,557	4,063,135	4,261,542
Furniture and equipment	280,560	212,699	218,233	264,171	498,793	476,870
Vehicles	55,261	146,348	100,592	119,876	155,853	266,224
Infrastructure	2,982,040	3,310,520	-	-	2,982,040	3,310,520
Water and sewer lines	-	-	1,801,417	1,917,889	1,801,417	1,917,889
Construction in progress	-	-	8,743,181	4,639,931	8,743,181	4,639,931
Totals	\$ 5,949,916	\$ 6,373,548	\$ 13,330,111	\$ 9,537,841	\$ 19,280,027	\$ 15,911,389

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

Capital Assets - Governmental Activities 2005



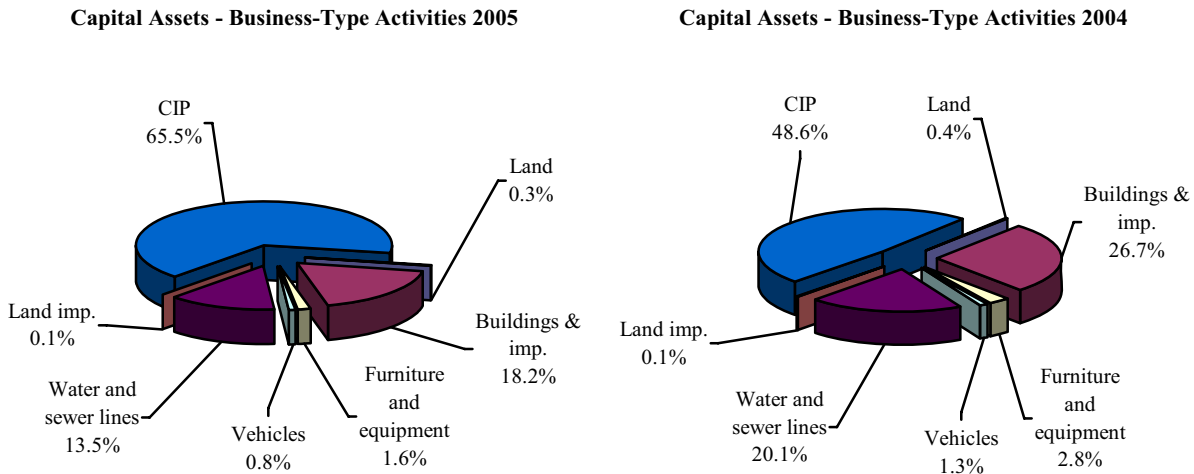
Capital Assets - Governmental Activities 2004 - Restated



The City's largest capital asset category is infrastructure. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 50.12% of the City's total governmental capital assets.

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.



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 13.5% of the City's total business-type capital assets.

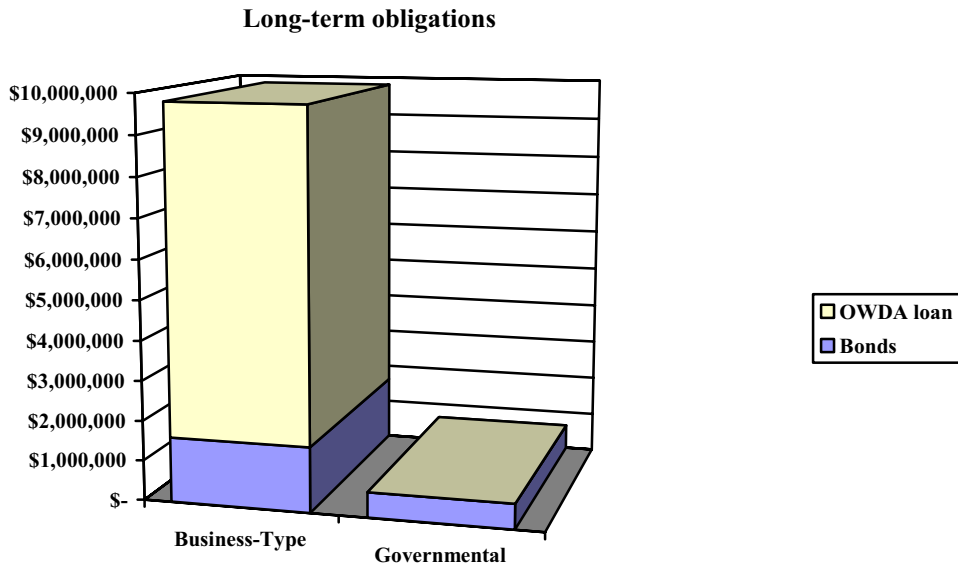
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	Governmental Activities	
	2005	2004
Special assessment bonds	\$ 20,000	\$ 40,000
General obligation bonds	<u>610,000</u>	<u>750,000</u>
Total long-term obligations	<u>\$ 630,000</u>	<u>\$ 790,000</u>
	Business-type Activities	
	2005	2004
Revenue bonds	1,625,000	1,825,000
OWDA loan	<u>8,188,226</u>	<u>4,119,913</u>
Total long-term obligations	<u>\$ 9,813,226</u>	<u>\$ 5,944,913</u>

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

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



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

CITY OF COSHOCTON, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Economic Conditions and Outlook

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

The average unemployment rate for Coshocton County in 2005 was 8.3% compared to the 5.9% State of Ohio average. The City Auditor anticipates the 2005 rate to continue through 2006. In order to meet these challenges, further cost containment and/or revenue enhancement actions will be essential. With the continuation of conservative budgeting practices, the City's financial position is anticipated to remain stable in future years.

Contacting the City's Financial Management

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

CITY OF COSHOCTON, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,399,019	\$ 1,528,931	\$ 2,927,950
Receivables (net of allowances for uncollectibles):			
Income taxes	918,561	-	918,561
Property and other taxes	448,234	-	448,234
Accounts	10,158	670,641	680,799
Accrued interest	10,251	-	10,251
Special assessments	40,860	-	40,860
Internal balances	38,034	(38,034)	-
Due from other governments	523,700	-	523,700
Deferred charges	-	50,524	50,524
Capital assets:			
Land and construction in progress.	960,438	8,777,681	9,738,119
Depreciable capital assets, net	4,989,478	4,552,430	9,541,908
Total capital assets.	<u>5,949,916</u>	<u>13,330,111</u>	<u>19,280,027</u>
 Total assets.	 <u>9,338,733</u>	 <u>15,542,173</u>	 <u>24,880,906</u>
Liabilities:			
Accounts payable.	110,078	75,200	185,278
Accrued wages and benefits	89,691	33,558	123,249
Due to other governments	168,595	37,332	205,927
Deferred revenue.	424,661	-	424,661
Accrued interest payable.	3,932	42,965	46,897
Claims payable.	225,610	-	225,610
Note payable	-	1,420,000	1,420,000
Judgements payable	-	14,301	14,301
Long-term liabilities:			
Due within one year	250,342	240,787	491,129
Due in more than one year	966,547	9,712,999	10,679,546
 Total liabilities	 <u>2,239,456</u>	 <u>11,577,142</u>	 <u>13,816,598</u>
Net assets:			
Invested in capital assets, net of related debt	5,317,970	3,609,285	8,927,255
Restricted for:			
Capital projects.	172,036	-	172,036
Debt service	152,042	-	152,042
Perpetual care:			
Expendable	118,470	-	118,470
Nonexpendable	250,000	-	250,000
Transportation projects	350,773	-	350,773
Other purposes	382,056	-	382,056
Unrestricted.	<u>355,930</u>	<u>355,746</u>	<u>711,676</u>
 Total net assets	 <u>\$ 7,099,277</u>	 <u>\$ 3,965,031</u>	 <u>\$ 11,064,308</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,807,553	\$ 232,731	\$ 63,479	\$ -
Security of persons and property.	2,936,932	-	-	-
Public health and welfare	829,075	582,628	-	-
Transportation	1,333,778	-	526,277	-
Community environment.	15,539	932	-	-
Leisure time activity.	84,273	-	-	-
Urban redevelopment and housing	590,107	-	599,071	-
Interest and fiscal charges.	33,446	-	-	-
Total governmental activities	7,630,703	816,291	1,188,827	-
Business-type Activities:				
Water	2,479,188	2,100,071	-	33,137
Sewer	1,680,024	1,385,478	-	500,000
Nonmajor:				
Refuse.	538,629	550,293	-	-
Total business-type activities	4,697,841	4,035,842	-	533,137
Total primary government.	\$ 12,328,544	\$ 4,852,133	\$ 1,188,827	\$ 533,137

General Revenues:

Property taxes levied for:

 General purposes.

 Fire pension.

Income taxes levied for:

 General purposes.

 Street fund

 Fire fund.

 Capital project funds.

 Debt service

JEDD revenue.

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues.

Change in net assets.

Net assets at beginning of year (restated).

Net assets at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,511,343)	\$ -	\$ (1,511,343)
(2,936,932)	-	(2,936,932)
(246,447)	-	(246,447)
(807,501)	-	(807,501)
(14,607)	-	(14,607)
(84,273)	-	(84,273)
8,964	-	8,964
(33,446)	-	(33,446)
<u>(5,625,585)</u>	<u>-</u>	<u>(5,625,585)</u>
-	(345,980)	(345,980)
-	205,454	205,454
-	11,664	11,664
<u>-</u>	<u>(128,862)</u>	<u>(128,862)</u>
<u>(5,625,585)</u>	<u>(128,862)</u>	<u>(5,754,447)</u>
439,578	-	439,578
52,377	-	52,377
2,564,280	-	2,564,280
139,731	-	139,731
500,873	-	500,873
206,091	-	206,091
181,921	-	181,921
50,031	-	50,031
635,909	-	635,909
90,831	-	90,831
419,625	25,835	445,460
<u>5,281,247</u>	<u>25,835</u>	<u>5,307,082</u>
(344,338)	(103,027)	(447,365)
<u>7,443,615</u>	<u>4,068,058</u>	<u>11,511,673</u>
<u>\$ 7,099,277</u>	<u>\$ 3,965,031</u>	<u>\$ 11,064,308</u>

CITY OF COSHOCTON, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 87,328	\$ 115,933	\$ 1,184,071	\$ 1,387,332
Receivables (net of allowance for uncollectibles):				
Income taxes	665,909	41,263	211,389	918,561
Property and other taxes	399,819	-	48,415	448,234
Accounts	7,852	-	2,306	10,158
Accrued interest	9,248	153	850	10,251
Special assessments	-	-	40,860	40,860
Due from other governments	277,536	215,332	30,832	523,700
	<u>\$ 1,447,692</u>	<u>\$ 372,681</u>	<u>\$ 1,518,723</u>	<u>\$ 3,339,096</u>
Total assets				
Liabilities:				
Accounts payable	\$ 22,153	\$ 25,970	\$ 61,955	\$ 110,078
Accrued wages and benefits	47,331	12,261	30,099	89,691
Due to other governments	116,904	13,285	38,406	168,595
Deferred revenue.	946,424	208,451	226,308	1,381,183
	<u>1,132,812</u>	<u>259,967</u>	<u>356,768</u>	<u>1,749,547</u>
Total liabilities				
Fund Balances:				
Reserved for encumbrances	4,616	617	91,878	97,111
Reserved for unclaimed monies	3,095	-	-	3,095
Reserved for debt service.	-	-	91,120	91,120
Reserved for perpetual care	-	-	250,000	250,000
Unreserved, undesignated, reported in:				
General fund	307,169	-	-	307,169
Special revenue funds.	-	112,097	461,512	573,609
Capital projects funds.	-	-	148,975	148,975
Permanent fund	-	-	118,470	118,470
	<u>314,880</u>	<u>112,714</u>	<u>1,161,955</u>	<u>1,589,549</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 1,447,692</u>	<u>\$ 372,681</u>	<u>\$ 1,518,723</u>	<u>\$ 3,339,096</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, 2005

Total governmental fund balances		\$ 1,589,549
<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.		5,949,916
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 37,933	
Income taxes	471,857	
Investment income	2,897	
Special assessments	40,860	
Intergovernmental revenues	<u>402,975</u>	
Total		956,522
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 \$38,034 are:		(175,889)
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	3,932	
Special assessment bonds	20,000	
General obligation bonds	610,000	
Compensated absences	584,943	
Capital lease payable	<u>1,946</u>	
Total		<u>(1,220,821)</u>
Net assets of governmental activities		<u><u>\$ 7,099,277</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>General</u>	<u>Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 2,493,402	\$ 145,802	\$ 809,080	\$ 3,448,284
Property and other taxes	455,807	-	54,217	510,024
Charges for services	351,236	-	387,257	738,493
Licenses and permits	8,677	-	31,698	40,375
Fines and forfeitures	671	-	36,752	37,423
Intergovernmental	681,375	476,210	725,299	1,882,884
Special assessments	-	-	21,297	21,297
Investment income	34,869	1,755	52,434	89,058
Contributions and donations	3,850	-	-	3,850
JEDD revenue	-	-	39,147	39,147
Other	240,973	53,680	124,407	419,060
Total revenues	<u>4,270,860</u>	<u>677,447</u>	<u>2,281,588</u>	<u>7,229,895</u>
Expenditures:				
Current:				
General government	1,567,481	-	169,577	1,737,058
Security of persons and property	2,330,892	-	485,297	2,816,189
Public health and welfare	328,836	-	460,060	788,896
Transportation	-	804,016	97,853	901,869
Community environment	15,139	-	400	15,539
Leisure time activity	69,790	-	13,848	83,638
Urban redevelopment and housing	-	-	590,107	590,107
Capital outlay	-	-	100,704	100,704
Debt service:				
Principal retirement	1,779	-	160,000	161,779
Interest and fiscal charges	321	-	34,030	34,351
Total expenditures	<u>4,314,238</u>	<u>804,016</u>	<u>2,111,876</u>	<u>7,230,130</u>
Net change in fund balances	(43,378)	(126,569)	169,712	(235)
Fund balances at beginning of year	<u>358,258</u>	<u>239,283</u>	<u>992,243</u>	<u>1,589,784</u>
Fund balances at end of year	<u>\$ 314,880</u>	<u>\$ 112,714</u>	<u>\$ 1,161,955</u>	<u>\$ 1,589,549</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, 2005

Net change in fund balances - total governmental funds \$ (235)

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

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

Capital asset additions	\$ 111,314	
Current year depreciation	<u>(531,804)</u>	
Total		(420,490)

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. (3,142)

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

Income taxes	155,496	
Intergovernmental	(61,433)	
Delinquent property taxes	(18,069)	
Special assessments	(21,297)	
Interest	<u>1,422</u>	
Total		56,119

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. 161,779

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 905

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. (57,434)

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. (81,840)

Change in net assets of governmental activities \$ (344,338)

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 2,345,213	\$ 2,745,916	\$ 2,395,121	\$ (350,795)
Property and other taxes	505,531	505,531	455,807	(49,724)
Charges for services	353,976	414,456	361,509	(52,947)
Licenses and permits	8,496	9,948	8,677	(1,271)
Fines and forfeitures	4,969	5,818	5,075	(743)
Intergovernmental	763,248	893,656	779,490	(114,166)
Investment income	29,963	35,083	30,601	(4,482)
Contributions and donations	3,770	4,414	3,850	(564)
Other	250,151	292,891	255,474	(37,417)
Total revenues	<u>4,265,317</u>	<u>4,907,713</u>	<u>4,295,604</u>	<u>(612,109)</u>
Expenditures:				
Current:				
General government	1,661,250	1,699,575	1,580,962	118,613
Security of persons and property	2,512,395	2,651,094	2,332,082	319,012
Public health and welfare	296,260	442,760	329,891	112,869
Community environment	14,763	17,415	13,748	3,667
Leisure time activity	47,100	67,600	71,540	(3,940)
Total expenditures	<u>4,531,768</u>	<u>4,878,444</u>	<u>4,328,223</u>	<u>550,221</u>
Net change in fund balance	(266,451)	29,269	(32,619)	(61,888)
Fund balance at beginning of year	104,808	104,808	104,808	-
Prior year encumbrances appropriated	<u>5,718</u>	<u>5,718</u>	<u>5,718</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (155,925)</u>	<u>\$ 139,795</u>	<u>\$ 77,907</u>	<u>\$ (61,888)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 STREET FUND
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 160,780	\$ 160,780	\$ 148,415	\$ (12,365)
Intergovernmental	529,333	529,333	488,624	(40,709)
Investment income	1,735	1,735	1,602	(133)
Other	58,152	58,152	53,680	(4,472)
Total revenues.	<u>750,000</u>	<u>750,000</u>	<u>692,321</u>	<u>(57,679)</u>
Expenditures:				
Current:				
Transportation	<u>690,166</u>	<u>814,666</u>	<u>788,663</u>	<u>26,003</u>
Total expenditures	<u>690,166</u>	<u>814,666</u>	<u>788,663</u>	<u>26,003</u>
Net change in fund balance.	59,834	(64,666)	(96,342)	(31,676)
Fund balance at beginning of year	210,433	210,433	210,433	-
Prior year encumbrances appropriated	<u>1,225</u>	<u>1,225</u>	<u>1,225</u>	<u>-</u>
Fund balance at end of year	<u>\$ 271,492</u>	<u>\$ 146,992</u>	<u>\$ 115,316</u>	<u>\$ (31,676)</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, 2005

	<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	\$ 938,401	\$ 509,249	\$ 81,281	\$ 1,528,931	\$ 11,687
Receivables (net of allowance for uncollectibles):					
Accounts	301,084	250,659	118,898	670,641	-
Deferred charges	-	50,524	-	50,524	-
Total current assets	<u>1,239,485</u>	<u>810,432</u>	<u>200,179</u>	<u>2,250,096</u>	<u>11,687</u>
Noncurrent assets:					
Capital assets:					
Land and construction in progress	8,777,681	-	-	8,777,681	-
Depreciable capital assets, net	2,335,030	2,217,400	-	4,552,430	-
Total capital assets	<u>11,112,711</u>	<u>2,217,400</u>	<u>-</u>	<u>13,330,111</u>	<u>-</u>
Total noncurrent assets.	<u>11,112,711</u>	<u>2,217,400</u>	<u>-</u>	<u>13,330,111</u>	<u>-</u>
Total assets	<u>12,352,196</u>	<u>3,027,832</u>	<u>200,179</u>	<u>15,580,207</u>	<u>11,687</u>
Liabilities:					
Current liabilities:					
Accounts payable.	62,818	12,382	-	75,200	-
Accrued wages and benefits	9,348	24,210	-	33,558	-
Compensated absences	25,244	5,543	-	30,787	-
Due to other governments	22,295	15,037	-	37,332	-
Claims payable.	-	-	-	-	225,610
Notes payable	1,420,000	-	-	1,420,000	-
Judgements payable	14,301	-	-	14,301	-
Current portion of revenue bonds	-	210,000	-	210,000	-
Accrued interest payable.	38,564	4,401	-	42,965	-
Total current liabilities	<u>1,592,570</u>	<u>271,573</u>	<u>-</u>	<u>1,864,143</u>	<u>225,610</u>
Long-term liabilities:					
Revenue bonds	-	1,322,609	-	1,322,609	-
OWDA loans	8,188,226	-	-	8,188,226	-
Compensated absences	142,741	59,423	-	202,164	-
Total long-term liabilities	<u>8,330,967</u>	<u>1,382,032</u>	<u>-</u>	<u>9,712,999</u>	<u>-</u>
Total liabilities	<u>9,923,537</u>	<u>1,653,605</u>	<u>-</u>	<u>11,577,142</u>	<u>225,610</u>
Net assets:					
Invested in capital assets, net of related debt.	2,924,494	684,791	-	3,609,285	-
Unrestricted (deficit)	(495,835)	689,436	200,179	393,780	(213,923)
Total net assets	<u>\$ 2,428,659</u>	<u>\$ 1,374,227</u>	<u>\$ 200,179</u>	<u>4,003,065</u>	<u>\$ (213,923)</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				(38,034)	
Net assets of business-type activities				<u>\$ 3,965,031</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, 2005

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities - Internal Service Fund</u>
Operating revenues:					
Charges for services	\$ 2,100,071	\$ 1,385,478	\$ 550,293	\$ 4,035,842	\$ 1,001,513
Other	19,662	6,173	-	25,835	7,990
Total operating revenues	<u>2,119,733</u>	<u>1,391,651</u>	<u>550,293</u>	<u>4,061,677</u>	<u>1,009,503</u>
Operating expenses:					
Personal services	921,408	615,231	-	1,536,639	-
Contract services	197,177	464,106	459,107	1,120,390	132,180
Materials and supplies	888,451	315,416	79,522	1,283,389	482
Claims	-	-	-	-	1,008,602
Other	413	55,020	-	55,433	-
Depreciation	188,557	122,423	-	310,980	-
Total operating expenses	<u>2,196,006</u>	<u>1,572,196</u>	<u>538,629</u>	<u>4,306,831</u>	<u>1,141,264</u>
Operating income (loss)	<u>(76,273)</u>	<u>(180,545)</u>	<u>11,664</u>	<u>(245,154)</u>	<u>(131,761)</u>
Nonoperating revenues (expenses):					
Interest revenue	-	-	-	-	351
Intergovernmental	33,137	500,000	-	533,137	-
Interest expense and fiscal charges	(251,401)	(90,039)	-	(341,440)	-
Total nonoperating revenues (expenses)	<u>(218,264)</u>	<u>409,961</u>	<u>-</u>	<u>191,697</u>	<u>351</u>
Changes in net assets	(294,537)	229,416	11,664	(53,457)	(131,410)
Net assets at beginning of year	<u>2,723,196</u>	<u>1,144,811</u>	<u>188,515</u>		<u>(82,513)</u>
Net assets at end of year	<u>\$ 2,428,659</u>	<u>\$ 1,374,227</u>	<u>\$ 200,179</u>		<u>\$ (213,923)</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds.				(49,570)	
Changes in net assets of business-type activities				<u>\$ (103,027)</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, 2005

	<u>Business-type Activities - Enterprise Funds</u>				<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Nonmajor</u>	<u>Total</u>	<u>Activities - Internal Service Fund</u>
Cash flows from operating activities:					
Cash received from customers	\$ 1,991,113	\$ 1,401,647	\$ 544,958	\$ 3,937,718	\$ 1,001,895
Cash received from other operations.	19,662	6,173	-	25,835	7,990
Cash payments for personal services	(953,236)	(606,565)	-	(1,559,801)	-
Cash payments for contract services	(230,978)	(478,188)	(459,107)	(1,168,273)	(132,180)
Cash payments for materials and supplies	(869,264)	(318,601)	(79,522)	(1,267,387)	(482)
Cash payments for claims	-	-	-	-	(871,710)
Cash payments for other expenses.	(413)	(55,020)	-	(55,433)	-
Net cash provided by (used in) operating activities.	<u>(43,116)</u>	<u>(50,554)</u>	<u>6,329</u>	<u>(87,341)</u>	<u>5,513</u>
Cash flows from noncapital financing activities:					
Cash received from grants	17,355	500,000	-	517,355	-
Net cash provided by noncapital financing activities	<u>17,355</u>	<u>500,000</u>	<u>-</u>	<u>517,355</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets	(4,087,468)	-	-	(4,087,468)	-
Principal retirement on revenue bonds	-	(200,000)	-	(200,000)	-
Principal retirement on notes	(2,166,557)	-	-	(2,166,557)	-
Proceeds of notes.	1,420,000	-	-	1,420,000	-
Proceeds of loans.	4,234,870	-	-	4,234,870	-
Interest and fiscal charges.	(242,084)	(71,150)	-	(313,234)	-
Net cash provided by (used in) capital and related financing activities	<u>(841,239)</u>	<u>(271,150)</u>	<u>-</u>	<u>(1,112,389)</u>	<u>-</u>
Cash flows from investing activities:					
Interest received.	-	-	-	-	351
Net cash provided by investing activities.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351</u>
Net increase (decrease) in cash and cash equivalents.	(867,000)	178,296	6,329	(682,375)	5,864
Cash and cash equivalents at beginning of year	<u>1,805,401</u>	<u>330,953</u>	<u>74,952</u>	<u>2,211,306</u>	<u>5,823</u>
Cash and cash equivalents at end of year	<u>\$ 938,401</u>	<u>\$ 509,249</u>	<u>\$ 81,281</u>	<u>\$ 1,528,931</u>	<u>\$ 11,687</u>

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CITY OF COSHOCTON, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<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)	\$ (76,273)	\$ (180,545)	\$ 11,664	(245,154)	\$ (131,761)
Adjustments:					
Depreciation	188,557	122,423	-	310,980	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable.	(4,537)	16,169	(5,335)	6,297	-
Increase (decrease) in accounts payable	(14,736)	(17,428)	-	(32,164)	382
Increase (decrease) in accrued wages and benefits . .	(11,081)	10,545	-	(536)	-
Decrease in due to other governments.	(2,739)	(1,796)	-	(4,535)	-
Increase (decrease) in compensated absences payable .	(17,886)	78	-	(17,808)	-
Decease in judgements payable.	(104,421)	-	-	(104,421)	-
Increase in claims payable	-	-	-	-	136,892
Net cash provided by (used in) operating activities . . .	<u>\$ (43,116)</u>	<u>\$ (50,554)</u>	<u>\$ 6,329</u>	<u>\$ (87,341)</u>	<u>\$ 5,513</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF COSHOCTON, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2005

	<u>Private- Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 252,103	\$ 901
Cash in segregated accounts	-	6,666
Receivables:		
Accounts	-	1,220
Accrued interest.	<u>2,732</u>	<u>-</u>
Total assets.	<u>254,835</u>	<u>\$ 8,787</u>
Liabilities:		
Accounts payable.	-	\$ 901
Undistributed monies.	<u>-</u>	<u>7,886</u>
Total liabilities	<u>-</u>	<u>\$ 8,787</u>
Net assets:		
Held in trust for other purposes	<u>254,835</u>	
Total net assets	<u>\$ 254,835</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, 2005

	<u>Private- Purpose Trust</u>
Additions:	
Interest	<u>\$ 6,767</u>
Total additions	<u>6,767</u>
 Deductions:	
Benefits.	<u>800</u>
Total deductions	<u>800</u>
Changes in net assets	5,967
Net assets at beginning of year	<u>248,868</u>
Net assets at end of year	<u><u>\$ 254,835</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, 2005

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, 2005

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 2005, 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, 2005

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, 2005

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.

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

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

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

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

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

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 8). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

F. Budgetary Data

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

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

G. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to repurchase agreements, nonnegotiable certificates of deposit and STAR Ohio.

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amount to \$34,869 which includes \$32,325 assigned from other City funds.

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

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

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

H. Inventories of Materials and Supplies

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

I. Capital Assets

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

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

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

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

J. Compensated Absences

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

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

M. Interfund Activity

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

N. Fund Balance Reserves

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

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

O. Estimates

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

P. Net Assets

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

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

Q. Bond Issuance Cost and Accounting Loss

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2005.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

B. Restatement of Net Assets

Net assets of the governmental activities have been restated to retroactively report infrastructure in the capital asset balances. This prior period adjustment had the following effect on net assets as previously reported.

	<u>Governmental Activities</u>
Net assets January 1, 2005	\$ 4,474,503
Capital asset adjustment	<u>2,969,112</u>
Restated governmental activities net assets, January 1, 2005	<u>\$ 7,443,615</u>

C. Fund Deficits

At December 31, 2005, the health insurance internal service fund had deficit fund balance in the amount of \$213,913. Management is currently analyzing the operations of this fund to determine appropriate action to alleviate the deficit.

D. Compliance

Contrary to Ohio Revised Code Section 5705.41(D), the City did not always certify expenditures prior to incurring the obligation.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 moneys 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.

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 State Treasury Asset Reserve of Ohio (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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2005, the carrying amount of all City deposits was \$1,391,949, exclusive of the \$1,563,000 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, 2005, \$1,055,529 of the City’s bank balance of \$1,496,367 was exposed to custodial risk as discussed below, while \$440,838 was covered by Federal Deposit Insurance Corporation.

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, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 1,563,000	\$ 1,563,000
STAR Ohio	<u>226,005</u>	<u>226,005</u>
	<u>\$ 1,789,005</u>	<u>\$ 1,789,005</u>

The weighted average maturity of investments is 0 years.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The City's investments, except for the repurchase agreement as discussed above, were assigned an AAAM money market rating by Standard & Poor's.

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, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 1,563,000	87.37%
STAR Ohio	<u>226,005</u>	<u>12.63%</u>
	<u>\$ 1,789,005</u>	<u>100.00%</u>

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, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,391,949
Investments	1,789,005
Cash in segregated accounts	<u>6,666</u>
Total	<u>\$ 3,187,620</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,399,019
Business type activities	1,528,931
Private-purpose trust fund	252,103
Agency funds	<u>7,567</u>
Total	<u>\$ 3,187,620</u>

NOTE 5 - JUDGEMENTS PAYABLE

On September 17, 2001, the City entered into an agreement with Clow Water Systems Corporation (CLOW). This agreement was intended to settle the overpayment for water usage by CLOW to the City. The overpayment resulted in a \$575,000 credit to CLOW. Per the agreement, the City is required to pay CLOW \$5,000 per month for 24 months beginning with the July 2001 payment. The City water department will credit water usage at CLOW until the remainder of the overpayment is satisfied. On December 31, 2005, the outstanding judgements payable was \$14,301.

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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Coshocton. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2005 was \$2.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real property tax	\$ 144,504,920
Public utility tangible personal property	5,975,370
Tangible personal property	<u>13,912,775</u>
Total assessed valuation	<u>\$ 164,393,065</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005. 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, 2005, 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, 2005, as well as intended to finance fiscal 2005 operations.

CITY OF COSHOCTON, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 7 - RECEIVABLES - (Continued)

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

Governmental Activities:

Income taxes	\$ 918,561
Real and other taxes	448,234
Accounts	10,158
Accrued interest	10,251
Special assessments	40,860
Due from other governments	523,700

Business-type Activities:

Accounts	670,641
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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, 2005 was \$19,861.

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 proceeds 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS

The capital asset balances of the governmental activities have been restated due to the retroactive reporting of infrastructure. Prior to 2005, only governmental infrastructure capital assets acquired or constructed in 2003 and 2004 were reported. The City elected to “phase in” the retroactive reporting of governmental infrastructure assets.

<u>Governmental activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Adjustments</u>	<u>Restated Balance</u> <u>12/31/04</u>
Land	\$ 960,438	\$ -	\$ 960,438
Land improvements	32,873	-	32,873
Buildings and improvements	2,718,209	-	2,718,209
Furniture and equipment	721,554	-	721,554
Vehicles	907,126	-	907,126
Infrastructure	359,377	7,176,100	7,535,477
Less accumulated depreciatoin	<u>(2,295,141)</u>	<u>(4,206,988)</u>	<u>(6,502,129)</u>
Total depreciation expense - governmental activities	<u>\$ 3,404,436</u>	<u>\$ 2,969,112</u>	<u>\$ 6,373,548</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

Capital asset activity for the year ended December 31, 2005, was as follows:

	Restated Balance			Balance
<u>Governmental Activities:</u>	<u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 960,438	\$ -	\$ -	\$ 960,438
Total capital assets, not being depreciated	<u>960,438</u>	<u>-</u>	<u>-</u>	<u>960,438</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	32,873	-	-	32,873
Buildings and improvements	2,718,209	-	-	2,718,209
Furniture and equipment	721,554	111,314	(6,282)	826,586
Vehicles	907,126	-	-	907,126
Infrastructure	<u>7,535,477</u>	<u>-</u>	<u>-</u>	<u>7,535,477</u>
Total capital assets, being depreciated	<u>11,915,239</u>	<u>111,314</u>	<u>(6,282)</u>	<u>12,020,271</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,315)	(1,315)	-	(2,630)
Buildings and improvements	(1,006,224)	(70,611)	-	(1,076,835)
Furniture and equipment	(508,855)	(40,311)	3,140	(546,026)
Vehicles	(760,778)	(91,087)	-	(851,865)
Infrastructure	<u>(4,224,957)</u>	<u>(328,480)</u>	<u>-</u>	<u>(4,553,437)</u>
Total accumulated depreciation	<u>(6,502,129)</u>	<u>(531,804)</u>	<u>3,140</u>	<u>(7,030,793)</u>
Total capital assets, being depreciated, net	<u>5,413,110</u>	<u>(420,490)</u>	<u>(3,142)</u>	<u>4,989,478</u>
Governmental activities capital assets, net	<u>\$ 6,373,548</u>	<u>\$ (420,490)</u>	<u>\$ (3,142)</u>	<u>\$ 5,949,916</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> 12/31/04	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/05
<i>Capital assets, not being depreciated:</i>				
Land	\$ 34,500	\$ -	\$ -	\$ 34,500
Construction in progress	<u>4,639,931</u>	<u>4,103,250</u>	<u>-</u>	<u>8,743,181</u>
Total capital assets, not being depreciated	<u>4,674,431</u>	<u>4,103,250</u>	<u>-</u>	<u>8,777,681</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	46,852	-	-	46,852
Buildings and improvements	5,262,273	-	-	5,262,273
Furniture and equipment	3,461,120	-	-	3,461,120
Vehicles	418,010	-	-	418,010
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>-</u>	<u>-</u>	<u>21,155,982</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(34,935)	(1,490)	-	(36,425)
Buildings and improvements	(2,712,716)	(127,796)	-	(2,840,512)
Furniture and equipment	(3,196,949)	(45,938)	-	(3,242,887)
Vehicles	(298,134)	(19,284)	-	(317,418)
Infrastructure	<u>(10,049,838)</u>	<u>(116,472)</u>	<u>-</u>	<u>(10,166,310)</u>
Total accumulated depreciation	<u>(16,292,572)</u>	<u>(310,980)</u>	<u>-</u>	<u>(16,603,552)</u>
Total capital assets, being depreciated, net	<u>4,863,410</u>	<u>(310,980)</u>	<u>-</u>	<u>4,552,430</u>
Business-type activities capital assets, net	<u>\$ 9,537,841</u>	<u>\$ 3,792,270</u>	<u>\$ -</u>	<u>\$ 13,330,111</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 11,898
Security of persons and property	81,185
Public health and welfare	15,443
Transportation	412,310
Leisure time activity	<u>10,968</u>
Total depreciation expense - governmental activities	<u>\$ 531,804</u>

NOTE 10 - CAPITALIZED LEASE - LESSEE DISCLOSURE

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

Capital assets consisting of equipment have been capitalized in the amount of \$8,528. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the statement of net assets. Principal payments during fiscal year 2005 amounted to \$1,779 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2005:

<u>Year Ending</u> <u>December 31:</u>	<u>Principal</u> <u>and Interest</u>
2006	\$ <u>2,100</u>
Total minimum lease payments	2,100
Less: amount representing interest	<u>(154)</u>
Present value of net minimum lease payments	<u>\$ 1,946</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 - OTHER EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned, unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid a maximum of 960 hours of accumulated, unused sick leave. As of December 31, 2005, the liability for unpaid compensated absences was \$817,894 for the entire City, which is reported as a fund liability and/or on the government-wide financial statements as applicable.

NOTE 12 - LONG-TERM OBLIGATIONS

During the fiscal year 2005, the following changes occurred in the City's long-term obligations:

	Balance			Balance	Amounts
	<u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>	<u>Due in</u>
<u>Governmental Activities:</u>					<u>One Year</u>
<u>General obligation bonds:</u>					
1998 Fire Station					
various interest rates	\$ 750,000	\$ -	\$ (140,000)	\$ 610,000	\$ 145,000
<u>Special assessment bond:</u>					
1986 Downtown Street					
Series A - 7 3/8%	40,000	-	(20,000)	20,000	20,000
Total - bonds	<u>790,000</u>	<u>-</u>	<u>(160,000)</u>	<u>630,000</u>	<u>165,000</u>
<u>Other long-term obligations:</u>					
Compensated absences	527,509	131,822	(74,388)	584,943	83,396
Capital lease obligation	<u>3,725</u>	<u>-</u>	<u>(1,779)</u>	<u>1,946</u>	<u>1,946</u>
Total other long-term obligations	<u>531,234</u>	<u>131,822</u>	<u>(76,167)</u>	<u>586,889</u>	<u>85,342</u>
Total governmental activities					
long-term obligations	<u>\$ 1,321,234</u>	<u>\$ 131,822</u>	<u>\$ (236,167)</u>	<u>\$ 1,216,889</u>	<u>\$ 250,342</u>

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/05</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%	\$ 1,825,000	\$ -	\$ (200,000)	\$ 1,625,000	\$210,000
Total - revenue bonds	<u>1,825,000</u>	<u>-</u>	<u>(200,000)</u>	<u>1,625,000</u>	<u>210,000</u>
<u>Other long-term obligations</u>					
Compensated absences	250,759	20,486	(38,294)	232,951	30,787
OWDA loan 3-5%	<u>4,119,913</u>	<u>4,234,870</u>	<u>(166,557)</u>	<u>8,188,226</u>	<u>-</u>
Total other long-term obligations	<u>4,370,672</u>	<u>4,255,356</u>	<u>(204,851)</u>	<u>8,421,177</u>	<u>30,787</u>
Total business-type activities					
long-term obligations	<u>\$ 6,195,672</u>	<u>\$4,255,356</u>	<u>\$ (404,851)</u>	10,046,177	<u>\$240,787</u>
Less: unamortized deferred charges on refunding				<u>(92,391)</u>	
Total reported on the Statement of Net Assets				<u>\$ 9,953,786</u>	

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

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

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

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

In fiscal year 2004, the City entered into a debt financing arrangements through the OWDA to fund water treatment plant improvements. The amounts due to the OWDA are payable solely from water revenues. The loan agreement functions similar to a line-of-credit agreement. At December 31, 2005, the City has outstanding borrowings of \$8,188,226. As of December 31, 2005, 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, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$17,964,747. Principal and interest requirements to retire the City's bonds outstanding at December 31, 2005 were:

<u>Year</u>	General Obligation Bonds			Special Assessment Bond		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 145,000	\$ 25,480	\$ 170,480	\$ 20,000	\$ 1,475	\$ 21,475
2007	150,000	19,535	169,535	-	-	-
2008	155,000	13,310	168,310	-	-	-
2009	160,000	6,800	166,800	-	-	-
Total	<u>\$ 610,000</u>	<u>\$ 65,125</u>	<u>\$ 675,125</u>	<u>\$ 20,000</u>	<u>\$ 1,475</u>	<u>\$ 21,475</u>
<u>Revenue Bonds</u>						
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>			
2006	\$ 210,000	\$ 63,150	\$ 273,150			
2007	215,000	56,010	271,010			
2008	225,000	48,270	273,270			
2009	230,000	39,720	269,720			
2010	240,000	30,750	270,750			
2011 - 2015	505,000	31,988	536,988			
2016 - 2020	-	-	-			
Total	<u>\$ 1,625,000</u>	<u>\$ 269,888</u>	<u>\$ 1,894,888</u>			

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 13 - SHORT-TERM OBLIGATIONS

A summary of the note transactions for the year ended December 31, 2005, follows:

	<u>Outstanding</u> <u>12/31/2004</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/2005</u>
<u>Business-Type Activities:</u>				
Water Note - 3.25%	\$ -	\$ 1,420,000	\$ -	\$ 1,420,000
Water Note - 1.75%	<u>2,000,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>-</u>
Total	<u>\$ 2,000,000</u>	<u>\$ 1,420,000</u>	<u>\$ (2,000,000)</u>	<u>\$ 1,420,000</u>

The notes are backed by the full faith and credit of the City of Coshocton, and mature within one year. The water note outstanding at December 31, 2005 matures in February 2006.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2005, 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.

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - RISK MANAGEMENT - (Continued)

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

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

The claims liability of \$225,610 reported in the internal service fund at December 31, 2005, was estimated based on billings in January through May 2005 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 2004 were:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 88,718	\$ 1,008,602	\$ (871,710)	\$ 225,610
2004	162,344	823,383	(897,009)	88,718

NOTE 15 - 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.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - DEFINED BENEFIT PENSION PLAN - (Continued)

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, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% 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, 2005, 2004, and 2003 were \$242,308, \$228,958, and \$191,817, respectively; 88.64% has been contributed for 2005, and 100% for 2004 and 2003. \$27,520 represents the unpaid contribution for 2005, 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 2005.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations, while the City is required to contribute 11.75% and 16.25% for police officers and firefighters, respectively. The City's contributions to OP&F for pension obligation for the years ended December 31, 2005, 2004, and 2003 were \$128,530, \$119,289, and \$121,421, respectively; 71.17% has been contributed for 2005 and 100% for the years 2004 and 2003. \$37,056 representing the unpaid contributions for 2005 is recorded as a liability within the respective funds.

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 16 - 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 2005 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. The number of active participants for both plans used in the December 31, 2004 actuarial valuation was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$101,490. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2004 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), is 13,812 for police officers and 10,528 for firefighters. The amount of employer contributions used to pay postemployment benefits for firefighters was \$61,323. OP&F's total health care expense for the year ending December 31, 2004 (the latest information available), was \$102.174 million, which was net of member contributions of \$55.665 million.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF COSHOCTON, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

	<u>General</u>	<u>Street</u>
Budget basis	\$ (32,619)	\$ (96,342)
Net adjustment for revenue accruals	(24,744)	(14,874)
Net adjustment for expenditure accruals	8,267	(16,578)
Adjustment for encumbrances	<u>5,718</u>	<u>1,225</u>
GAAP basis	<u>\$ (43,378)</u>	<u>\$ (126,569)</u>

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2005.

B. Litigation

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

NOTE 19 - SUBSEQUENT EVENT

On February 22, 2006, the City issued \$920,000 in notes in the anticipation of bonds. The proceeds of these notes, along with available cash-on-hand, were used to pay off the \$1,420,000 outstanding notes which matured in February 2006 (see Note 13).

CITY OF COSHOCTON
COSHOCTON COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2005

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	PASS THROUGH ENTITY NUMBER	FEDERAL CFDA NUMBER	RECEIPTS	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>(Passed through the Ohio Department of Development)</i>				
Community Development Block Grants/State's Program	A-F-03-109-1	14.228	\$ 63,000	\$ 63,000
	A-F-04-109-1		62,000	53,202
	A-C-02-109-1			9,412
	A-C-04-109-1		<u>211,000</u>	<u>186,000</u>
Total Community Development Block Grants/State's Program			336,000	311,614
Home Improvement Partnership Program	A-C-02-109-2	14.239	79,887	69,747
	A-C-04-109-2		<u>232,308</u>	<u>219,703</u>
Total Home Improvement Partnership Program			<u>312,195</u>	<u>289,450</u>
Total U.S. Department of Housing and Urban Development			648,195	601,064
<u>U.S DEPARTMENT OF HOMELAND SECURITY</u>				
<i>(Passed through the Ohio Department of Public Safety)</i>				
Disaster Grants - Public Assistance	DR-1580-OH	97.036	<u>54,711</u>	<u>54,711</u>
Total			<u>\$ 702,906</u>	<u>\$ 655,775</u>

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

**CITY OF COSHOCTON
COSHOCTON COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
DECEMBER 31, 2005**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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



Auditor of State Betty Montgomery

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

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

To the Members of City Council:

We have audited the 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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 14, 2006, in which we noted the City restated net assets of the governmental activities at December 31, 2004 to retroactively report infrastructure which was previously not reported. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated July 14, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2005-001. In a separate letter to the City's management dated July 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702
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www.auditor.state.oh.us

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

July 14, 2006



Auditor of State Betty Montgomery

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

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

To the Members of City Council:

Compliance

We have audited the compliance of the City of Coshocton, Coshocton County, Ohio, (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended December 31, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2005. In a separate letter to the City's management dated July 14, 2006, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

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

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

Federal Awards Receipts and Expenditures Schedule

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 as of and for the year ended December 31, 2005, and have issued our report thereon dated July 14, 2006, in which we noted the City restated net assets to retroactively report infrastructure which was previously not reported. Our audit was performed to form opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Federal Awards Receipts and Expenditures Schedule provides additional information as required by OMB Circular A-133 and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We intend this report solely for the information and use of management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

July 14, 2006

CITY OF COSHOCTON
COSHOCTON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2005

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grants/State's Program - CFDA # 14.228. Home Improvement Partnership Program – CFDA #14.239
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) states in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the Auditor of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a Auditor's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

A. "Then and Now" Certificate – If the Auditor can certify that both at the time that the contract or order was made ("then"), and at the time that the Auditor is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the City without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

B. Blanket Certificate – Auditors may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

C. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the Auditor for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

FINDING NUMBER 2005-001 (Continued)

Material Noncompliance (Continued)

We noted that 29% of the expenditures tested were not certified by the Auditor prior to incurring the commitment and the exceptions noted above were not utilized. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the Auditor certify the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Auditor should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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CITY OF COSHOCTON

COSHOCTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 26, 2006**