

CITY OF PATASKALA, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005

CHARLES WILLIAMS, FINANCE DIRECTOR



**Auditor of State
Betty Montgomery**

Members of Council and Mayor
City of Pataskala
621 West Broad Street
Pataskala, Ohio 43062-0110

We have reviewed the *Independent Auditor's Report* of the City of Pataskala, Licking County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Pataskala is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 24, 2006

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CITY OF PATASKALA
LICKING COUNTY, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditors' Report

Members of Council and Mayor
City of Pataskala
621 W. Broad Street
Pataskala, Ohio 43062

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Pataskala, Licking 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Pataskala, Licking County, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general, street, and police levy funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Pataskala

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
June 1, 2006

CITY OF PATASKALA, OHIO

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

The discussion and analysis of the City of Pataskala'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 increased \$1,528,030. Net assets of governmental activities increased \$593,407 and net assets of business-type activities increased \$934,623 or 20.02% over 2004.
- General revenues accounted for \$2,712,968 of total governmental activities revenue. Program specific revenues accounted for \$1,870,531 or 40.81% of total governmental activities revenue.
- The City had \$3,990,092 in expenses related to governmental activities; \$1,870,531 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,119,561 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$2,712,968.
- The general fund had revenues of \$1,486,811 in 2005. This represents an increase of \$90,880 from 2004 revenues. The expenditures of the general fund, which totaled \$1,699,509 in 2005, increased \$241,809 from \$1,457,700 in 2004. The net decrease in fund balance for the general fund was \$212,698 or 23.63%.
- The street fund had revenues of \$1,193,921 in 2005, which is an increase of \$87,719 from 2004 revenues. The expenditures in the street fund totaled \$1,096,122 in 2005, which increased \$64,858 from 2004. The net increase in fund balance was \$97,799, resulting in an ending fund balance of \$509,880.
- The police levy fund had revenues of \$1,200,785 in 2005, which is an increase of \$54,802 from 2004 revenues. The expenditures in the police levy fund totaled \$1,214,150 in 2005, which increased \$71,603 from \$1,142,547 in 2004. The net decrease in fund balance was \$13,365, resulting in an ending fund balance of \$70,581.
- The municipal building purchase fund, a new fund in 2005, had revenues of \$500. The expenditures in the municipal building purchase fund totaled \$1,121,589 causing a decrease in fund balance of \$1,121,089 with an ending fund balance of (\$1,121,089).
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2005 by \$934,623. This increase in net assets was due primarily to charges for services revenue to cover operating expenses.
- In the general fund, the actual revenues came in \$15,037 less than they were in the final budget and actual expenditures were \$679,807 less than the amount in the final budget. These variances are the result of the City's conservative budgeting. Budgeted revenues remained the same from the original to the final budget numbers. Original budgeted expenditures also remained the same from original to the final budget numbers.

The Basic Financial Statements

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 PATASKALA, 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, liabilities, revenues and expenses 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 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 and sewer operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF PATASKALA, 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, Street fund, Police Levy fund and Municipal Building Purchase fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20 - 26 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. 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 and sewer operations. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 27 - 29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary fund is an agency fund. The basic fiduciary fund financial statement can be found on page 30 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 31 - 56 of this report.

CITY OF PATASKALA, 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:

	Governmental Activities		Net Assets Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 5,563,151	\$ 4,674,508	\$ 9,027,139	\$ 3,468,781	\$ 14,590,290	\$ 8,143,289
Capital assets	4,244,251	2,903,837	5,881,253	5,441,232	10,125,504	8,345,069
Total assets	9,807,402	7,578,345	14,908,392	8,910,013	24,715,794	16,488,358
Liabilities						
Long-term liabilities						
outstanding	147,080	277,890	2,297,205	2,551,875	2,444,285	2,829,765
Other liabilities	4,452,471	2,686,011	7,007,737	1,689,311	11,460,208	4,375,322
Total liabilities	4,599,551	2,963,901	9,304,942	4,241,186	13,904,493	7,205,087
Net Assets						
Invested in capital assets, net of related debt	2,633,554	2,697,516	2,116,473	1,311,484	4,750,027	4,009,000
Restricted	1,396,747	1,089,647	-	-	1,396,747	1,089,647
Unrestricted	1,177,550	827,281	3,486,977	3,357,343	4,664,527	4,184,624
Total net assets	\$ 5,207,851	\$ 4,614,444	\$ 5,603,450	\$ 4,668,827	\$ 10,811,301	\$ 9,283,271

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 \$10,811,301. At year-end, net assets were \$5,207,851 and \$5,603,450 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 net assets. At year-end, capital assets represented 40.97% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$2,633,554 and \$2,116,473 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.

As of December 31, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$1,396,747, 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 \$1,177,550 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF PATASKALA, 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. Charges for services and sales and operating grants and contributions in governmental activities have been restated in 2004 to properly present certain revenues.

	Governmental Activities		Change in Net Assets Business-Type Activities		Total	
	(Restated)				(Restated)	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for services and sales	\$ 521,941	\$ 552,169	\$ 2,229,157	\$ 1,932,670	\$ 2,751,098	\$ 2,484,839
Operating grants and contributions	1,107,832	1,098,811	-	-	1,107,832	1,098,811
Capital grants and contributions	240,758	282,642	-	366,711	240,758	649,353
General revenues:						
Property taxes	2,190,009	2,214,190	-	-	2,190,009	2,214,190
Unrestricted grants	338,895	267,013	-	-	338,895	267,013
Interest	61,951	28,329	143,716	25,540	205,667	53,869
Other	122,113	43,570	68,697	24,950	190,810	68,520
Total revenues	<u>4,583,499</u>	<u>4,486,724</u>	<u>2,441,570</u>	<u>2,349,871</u>	<u>7,025,069</u>	<u>6,836,595</u>
Expenses:						
General government	1,217,964	979,742	-	-	1,217,964	979,742
Security of persons and property	1,411,576	1,330,112	-	-	1,411,576	1,330,112
Public health and welfare	47,693	44,546	-	-	47,693	44,546
Transportation	774,839	669,463	-	-	774,839	669,463
Community environment	386,665	446,947	-	-	386,665	446,947
Leisure time activity	136,392	159,546	-	-	136,392	159,546
Other	-	15	-	-	-	15
Interest and fiscal charges	14,963	19,718	-	-	14,963	19,718
Water	-	-	894,526	893,969	894,526	893,969
Sewer	-	-	612,421	717,220	612,421	717,220
Total expenses	<u>3,990,092</u>	<u>3,650,089</u>	<u>1,506,947</u>	<u>1,611,189</u>	<u>5,497,039</u>	<u>5,261,278</u>
Change in net assets	593,407	836,635	934,623	738,682	1,528,030	1,575,317
Net assets at beginning of year	<u>4,614,444</u>	<u>3,777,809</u>	<u>4,668,827</u>	<u>3,930,145</u>	<u>9,283,271</u>	<u>7,707,954</u>
Net assets at end of year	<u>\$ 5,207,851</u>	<u>\$ 4,614,444</u>	<u>\$ 5,603,450</u>	<u>\$ 4,668,827</u>	<u>\$ 10,811,301</u>	<u>\$ 9,283,271</u>

Governmental Activities

Governmental activities net assets increased \$593,407 in 2005.

Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$1,411,576 which accounted for 35.38% of the governmental expenses of the City. These expenses were partially funded by \$10,921 in direct charges to users of the services and \$170,903 in operating grants and contributions. General government expenses totaled \$1,217,963 which was partially funded by \$348,665 in direct charges to users of the services.

CITY OF PATASKALA, OHIO

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

The state and federal government contributed to the City a total of \$1,107,832 in operating grants and contributions and \$240,758 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$223,082 subsidized general government programs.

General revenues totaled \$2,712,968, and amounted to 59.19% of total governmental revenues. These revenues primarily consist of property tax revenue of \$2,190,009. 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 \$338,895.

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 property taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities

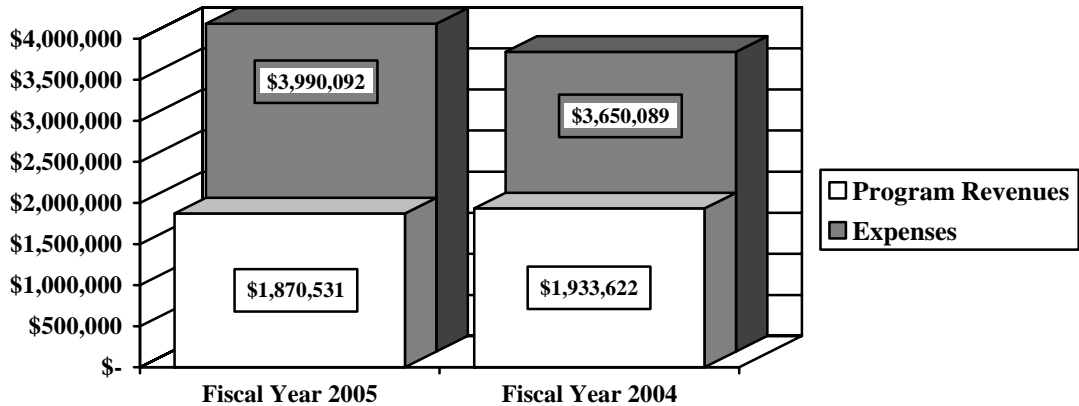
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:				
General government	\$ 1,217,964	\$ 387,318	\$ 979,742	\$ 144,591
Security of persons and property	1,411,576	1,229,752	1,330,112	1,141,810
Public health and welfare	47,693	47,693	44,546	44,546
Transportation	774,839	79,133	669,463	(141,774)
Community environment	386,665	386,337	446,947	446,508
Leisure time activity	136,392	(25,635)	159,546	61,053
Other	-	-	15	15
Interest and fiscal charges	<u>14,963</u>	<u>14,963</u>	<u>19,718</u>	<u>19,718</u>
Total Expenses	<u>\$ 3,990,092</u>	<u>\$ 2,119,561</u>	<u>\$ 3,650,089</u>	<u>\$ 1,716,467</u>

The dependence upon general revenues for governmental activities is apparent, with 53.12% of expenses supported through taxes and other general revenues.

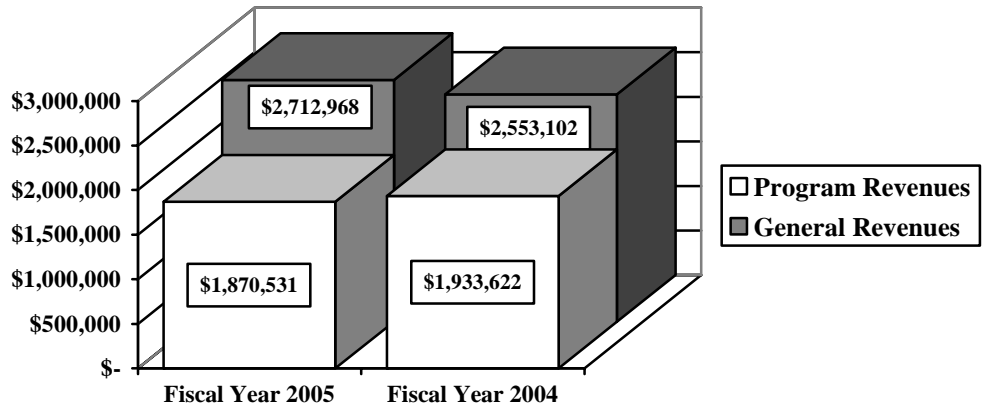
CITY OF PATASKALA, OHIO

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

Governmental Activities - Program Revenues vs. Total Expenses



Governmental Activities - General and Program Revenues

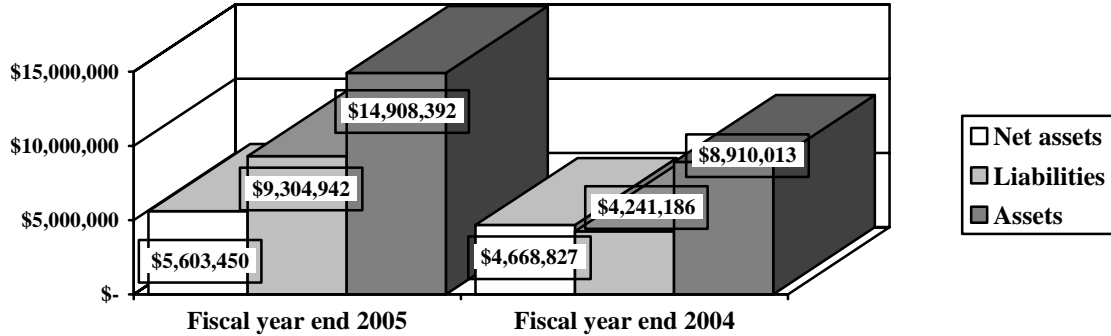


Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$2,229,157, general revenues of \$212,413, and expenses of \$1,506,947 for 2005. The graph below shows the business-type activities assets, liabilities and net assets for fiscal years 2005 and 2004.

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

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$452,346 which is \$985,143 below last year's total of \$1,437,489. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 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	\$ 687,296	\$ 899,994	\$ (212,698)
Street	509,880	412,081	97,799
Police Levy	70,581	83,946	(13,365)
Municipal building purchase	(1,121,089)	-	(1,121,089)
Other nonmajor governmental funds	<u>305,678</u>	<u>41,468</u>	<u>264,210</u>
Total	<u>\$ 452,346</u>	<u>\$ 1,437,489</u>	<u>\$ (985,143)</u>

CITY OF PATASKALA, OHIO

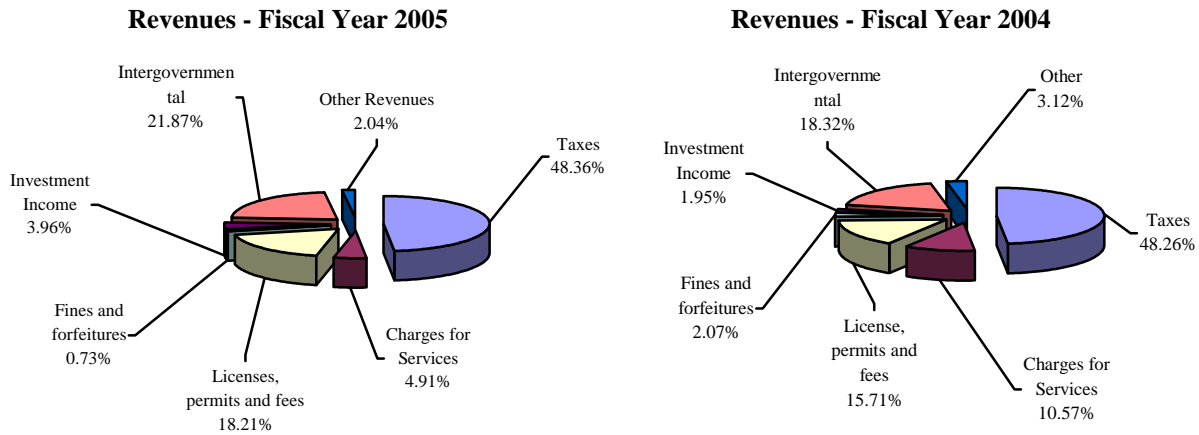
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

General Fund

The City's general fund balance decreased \$212,698, primarily due to expenditures increasing faster than revenues. 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>
<u>Revenues</u>			
Taxes	\$ 718,300	\$ 673,651	6.63%
Charges for services	73,022	147,498	-50.49%
Licenses, permits and fees	270,443	219,382	23.27%
Fines and forfeitures	10,921	28,964	-62.29%
Investment income	58,935	27,153	117.05%
Intergovernmental	324,858	255,713	27.04%
Other	<u>30,332</u>	<u>43,570</u>	-30.38%
Total	<u>\$ 1,486,811</u>	<u>\$ 1,395,931</u>	6.51%

Tax revenue represents 48.36% of all general fund revenue. Taxes increased 6.63% over 2004 revenues. Intergovernmental revenues increased \$69,145 or 27.04% during 2005.



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

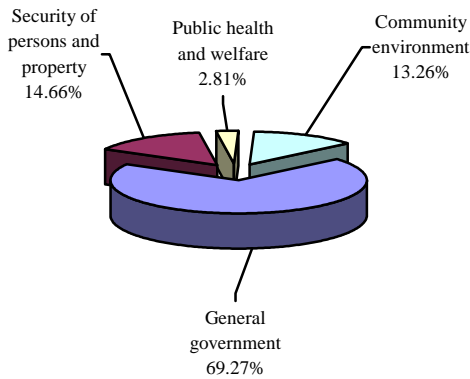
	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,177,316	\$ 993,506	18.50%
Security of persons and property	249,087	221,982	12.21%
Public health and welfare	47,693	44,546	7.06%
Community environment	<u>225,413</u>	<u>197,666</u>	14.04%
Total	<u>\$ 1,699,509</u>	<u>\$ 1,457,700</u>	16.59%

CITY OF PATASKALA, OHIO

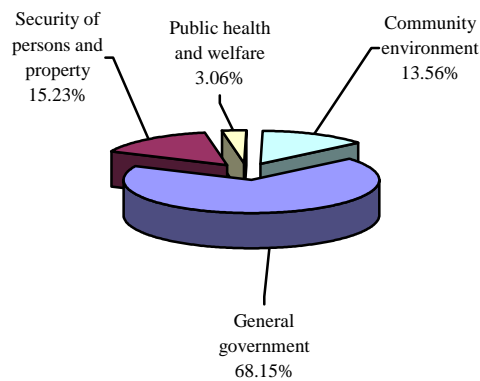
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

All expenditures increased comparably similar during 2005. The largest expenditure line item, general government, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Street Fund

The street fund had revenues of \$1,193,921 in 2005, which is an increase of \$87,719 from 2004 revenues. The expenditures in the street fund totaled \$1,096,122 in 2005, which increased \$64,858 from 2004. The net increase in fund balance was \$97,799, resulting in an ending fund balance of \$509,880.

Police Levy Fund

The police levy fund had revenues of \$1,200,785 in 2005, which is an increase of \$54,802 from 2004 revenues. The expenditures in the police levy fund totaled \$1,214,150 in 2005, which increased \$71,603 from 2004. The net decrease in fund balance was \$13,365, resulting in an ending fund balance of \$70,581.

Municipal Building Purchase Fund

The municipal building purchase fund, a new fund in 2005, had revenues of \$500. The expenditures in the municipal building purchase fund totaled \$1,121,589 causing a decrease in fund balance of \$1,121,089 with an ending fund balance of a (\$1,121,089).

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.

CITY OF PATASKALA, OHIO

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

Budgetary information is presented for the general fund, street fund and police levy fund. In the general fund, actual revenues of \$1,415,307 were lower than final budgeted revenues by \$15,037. Budgeted expenditures were not amended during the year. Actual expenditures came in \$679,807 lower than the final budgeted amounts.

Actual revenues for the street fund were higher than final budgeted revenues by \$116,854 while actual expenditures were \$295,829 lower than final budgeted expenditures. Actual revenues for the police levy fund were higher than final budgeted revenues by \$38,114 while actual expenditures were \$103,967 lower than final budgeted expenditures. There were no significant variances between the original and final budgeted amounts.

Proprietary Funds

The City's proprietary 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 has no internal service funds and there were no internal balance outstanding at year-end between the governmental and business-type activities.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City had \$10,125,504, net of accumulated depreciation, invested in land, buildings and improvements, improvements other than buildings, equipment, vehicles, and infrastructure. Of this total, \$4,244,251 was reported in governmental activities and \$5,881,253 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

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

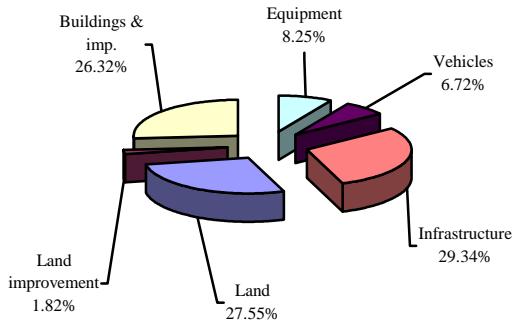
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,169,440	\$ 800,080	\$ 654,893	\$ 654,893	\$ 1,824,333	\$ 1,454,973
Construction-in-progress	-	-	547,588	-	547,588	-
Land improvements	77,211	85,745	7,427	9,549	84,638	95,294
Buildings and improvements	1,116,940	261,276	1,232,826	1,300,997	2,349,766	1,562,273
Equipment	349,991	247,007	700,472	767,637	1,050,463	1,014,644
Vehicles	285,353	444,572	-	-	285,353	444,572
Infrastructure	1,245,316	1,065,157	2,738,047	2,708,156	3,983,363	3,773,313
Totals	\$ 4,244,251	\$ 2,903,837	\$ 5,881,253	\$ 5,441,232	\$10,125,504	\$ 8,345,069

CITY OF PATASKALA, OHIO

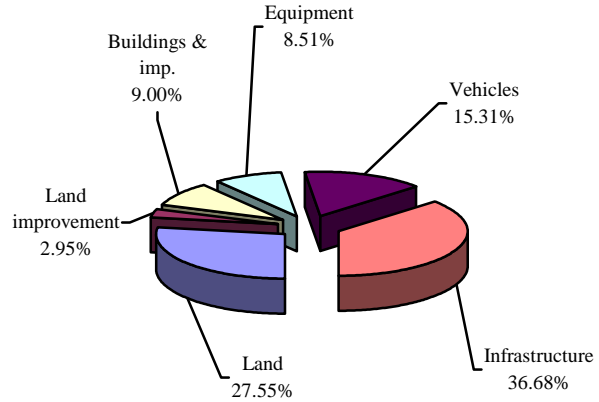
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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

**Capital Assets - Governmental Activities
2005**



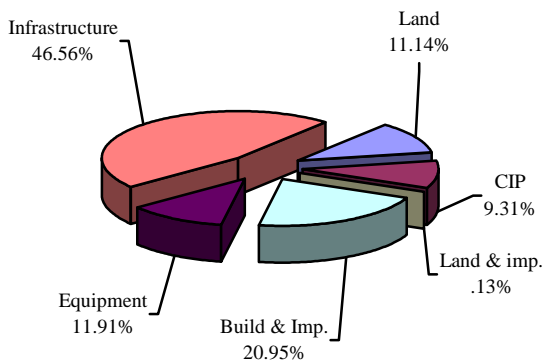
**Capital Assets - Governmental Activities
2004**



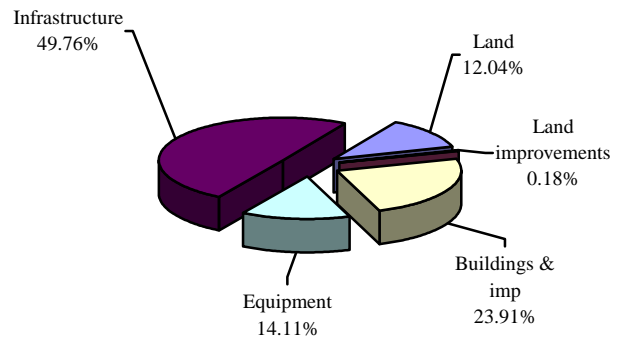
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The City began reporting infrastructure in the governmental capital assets in 2004.

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

**Capital Assets - Business-Type Activities
2005**



**Capital Assets - Business-Type Activities
2004**



The City's largest business-type capital asset category is infrastructure that primarily facilitates for the water and sewer mains. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 46.56% of the City's total business-type capital assets.

CITY OF PATASKALA, OHIO

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

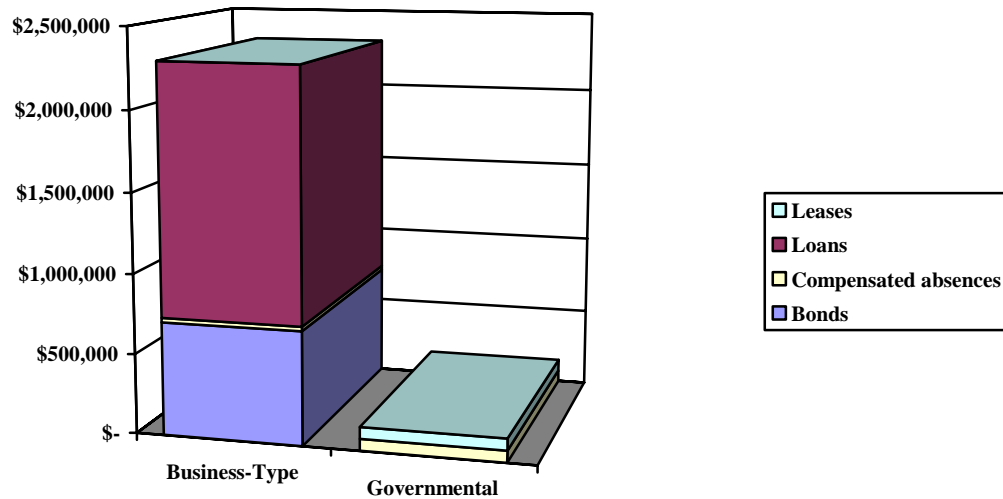
Debt Administration

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

	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Compensated absences	73,383	71,569
Capital lease obligation payable	<u>73,697</u>	<u>206,321</u>
Total long-term obligations	<u>\$ 147,080</u>	<u>\$ 277,890</u>
	Business-type Activities	
	<u>2005</u>	<u>2004</u>
General obligation bonds	<u>\$ 710,000</u>	<u>\$ 740,000</u>
Total bonds	<u>710,000</u>	<u>740,000</u>
OWDA Loans	1,559,780	1,794,748
Compensated absences	<u>27,425</u>	<u>17,127</u>
Total long-term obligations	<u>\$ 2,297,205</u>	<u>\$ 2,551,875</u>

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

Long-term obligations December 31, 2005



CITY OF PATASKALA, OHIO

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

Economic Conditions and Outlook

The City of Pataskala is in a position of limited financial flexibility. Based on the geographic size of the City and the conditions of the streets and storm drainage areas, it is very difficult to perform the degree of maintenance required on City infrastructure while performing all other duties. Additional revenue sources are needed, and are being proposed in the budget request for next year. Also, the Charter Commission has recommended that the City Council consider the placement of an income tax issue on a charter revision ballot in the near future. Fees are also being reviewed as a means of generating operating revenue. Until such time as some or all of these options can be implemented, the City will be limited in its ability to provide basic public services.

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 contact: Mr. Charles Williams, Finance Director, City of Pataskala, 621 W. Broad Street, Pataskala, Ohio 43062.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF PATASKALA, 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	\$ 1,909,208	\$ 8,781,353	\$ 10,690,561
Receivables (net of allowances for uncollectibles):			
Real and other taxes	2,799,360	-	2,799,360
Accounts	81,862	233,183	315,045
Due from other governments	696,031	-	696,031
Prepayments	28,430	9,228	37,658
Materials and supplies inventory.	32,275	3,375	35,650
Restricted assets:			
Cash with fiscal and escrow agent	15,985	-	15,985
Capital assets:			
Land and construction in progress.	1,169,440	1,202,481	2,371,921
Depreciable capital assets, net	3,074,811	4,678,772	7,753,583
Total capital assets, net	<u>4,244,251</u>	<u>5,881,253</u>	<u>10,125,504</u>
 Total assets.	 <u>9,807,402</u>	 <u>14,908,392</u>	 <u>24,715,794</u>
Liabilities:			
Accounts payable.	54,750	53,877	108,627
Contracts payable.	-	547,588	547,588
Accrued wages and benefits	131,073	33,580	164,653
Deferred revenue.	2,655,818	-	2,655,818
Accrued interest payable.	2,120	111,610	113,730
Pension obligation payable	71,710	16,082	87,792
Notes payable	1,537,000	6,245,000	7,782,000
Long-term liabilities:			
Due within one year	128,346	309,759	438,105
Due in more than one year	18,734	1,987,446	2,006,180
 Total liabilities	 <u>4,599,551</u>	 <u>9,304,942</u>	 <u>13,904,493</u>
Net assets:			
Invested in capital assets, net of related debt	2,633,554	2,116,473	4,750,027
Restricted for:			
Debt service	30,067	-	30,067
Street construction, maintenance and repairs.	718,716	-	718,716
Police and fire	180,561	-	180,561
Other purposes	467,403	-	467,403
Unrestricted.	1,177,550	3,486,977	4,664,527
 Total net assets	 <u>\$ 5,207,851</u>	 <u>\$ 5,603,450</u>	 <u>\$ 10,811,301</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, 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	\$ 1,217,964	\$ 348,665	\$ 258,899	\$ 223,082
Security of persons and property.	1,411,576	10,921	170,903	-
Public health and welfare	47,693	-	-	-
Transportation	774,839	-	678,030	17,676
Community environment.	386,665	328	-	-
Leisure time activity.	136,392	162,027	-	-
Interest and fiscal charges.	14,963	-	-	-
Total governmental activities	3,990,092	521,941	1,107,832	240,758
Business-type Activities:				
Water	894,526	1,120,539	-	-
Sewer	612,421	1,108,618	-	-
Total business-type activities	1,506,947	2,229,157	-	-
Total primary government.	\$ 5,497,039	\$ 2,751,098	\$ 1,107,832	\$ 240,758

General Revenues:
 Property taxes levied for:
 General purposes.
 Street fund
 Police fund
 Grants and entitlements not restricted to specific programs
 Investment earnings
 Miscellaneous

 Total general revenues.

 Change in net assets.

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (387,318)	\$ -	\$ (387,318)
(1,229,752)	-	(1,229,752)
(47,693)	-	(47,693)
(79,133)	-	(79,133)
(386,337)	-	(386,337)
25,635	-	25,635
(14,963)	-	(14,963)
<u>(2,119,561)</u>	<u>-</u>	<u>(2,119,561)</u>
-	226,013	226,013
-	496,197	496,197
-	722,210	722,210
<u>(2,119,561)</u>	<u>722,210</u>	<u>(1,397,351)</u>
690,564	-	690,564
502,568	-	502,568
996,877	-	996,877
338,895	-	338,895
61,951	143,716	205,667
122,113	68,697	190,810
<u>2,712,968</u>	<u>212,413</u>	<u>2,925,381</u>
593,407	934,623	1,528,030
<u>4,614,444</u>	<u>4,668,827</u>	<u>9,283,271</u>
<u>\$ 5,207,851</u>	<u>\$ 5,603,450</u>	<u>\$ 10,811,301</u>

CITY OF PATASKALA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General	Street	Police Levy	Municipal Building Purchase	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in pooled cash and cash equivalents	\$ 656,341	\$ 412,341	\$ 142,081	\$ 203,911	\$ 494,534	\$ 1,909,208
Receivables (net of allowance for uncollectibles):						
Real and other taxes	857,249	568,652	1,373,459	-	-	2,799,360
Accounts	52,485	4,210	25,142	-	25	81,862
Due from other governments	166,169	282,971	66,367	-	180,524	696,031
Prepayments	9,797	6,989	11,644	-	-	28,430
Materials and supplies inventory	-	32,275	-	-	-	32,275
Restricted assets:						
Cash with fiscal and escrow agents	-	-	-	-	15,985	15,985
Total assets	\$ 1,742,041	\$ 1,307,438	\$ 1,618,693	\$ 203,911	\$ 691,068	\$ 5,563,151
Liabilities:						
Accounts payable	\$ 29,378	\$ 6,404	\$ 6,597	\$ -	\$ 12,371	\$ 54,750
Accrued wages and benefits	35,645	29,753	63,115	-	2,560	131,073
Deferred revenue	974,026	748,325	1,436,567	-	155,234	3,314,152
Accrued interest payable payable	-	-	-	-	2,120	2,120
Pension obligation payable	15,696	13,076	41,833	-	1,105	71,710
Notes payable	-	-	-	1,325,000	212,000	1,537,000
Total liabilities	1,054,745	797,558	1,548,112	1,325,000	385,390	5,110,805
Fund Balances:						
Reserved for prepayments	9,797	6,989	11,644	-	-	28,430
Reserved for materials and supplies inventory	-	32,275	-	-	-	32,275
Reserved for restricted assets	-	-	-	-	15,985	15,985
Reserved for debt service	-	-	-	-	30,067	30,067
Unreserved, undesignated (deficit), reported in:						
General fund	677,499	-	-	-	-	677,499
Special revenue funds	-	470,616	58,937	-	473,746	1,003,299
Capital projects funds	-	-	-	(1,121,089)	(214,120)	(1,335,209)
Total fund balances	687,296	509,880	70,581	(1,121,089)	305,678	452,346
Total liabilities and fund balances	\$ 1,742,041	\$ 1,307,438	\$ 1,618,693	\$ 203,911	\$ 691,068	\$ 5,563,151

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Total governmental fund balances		\$	452,346
<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.			4,244,251
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes	\$	118,891	
Intergovernmental revenues		488,204	
Other revenue		<u>51,239</u>	
Total			658,334
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:			
Compensated absences		(73,383)	
Capital lease payable		<u>(73,697)</u>	
			<u>(147,080)</u>
Net assets of governmental activities		\$	<u>5,207,851</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

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

	<u>General</u>	<u>Street</u>	<u>Police Levy</u>	<u>Municipal Building Purchase</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property and other taxes	\$ 718,300	\$ 524,577	\$ 1,028,949	\$ -	\$ -	\$ 2,271,826
Charges for services	73,022	-	-	-	162,355	235,377
Licenses and permits	270,443	-	-	-	-	270,443
Fines and forfeitures	10,921	-	-	-	-	10,921
Intergovernmental	324,858	642,087	134,234	-	402,363	1,503,542
Investment income	58,935	2,217	-	-	799	61,951
Other	30,332	25,040	37,602	500	28,639	122,113
Total revenues	<u>1,486,811</u>	<u>1,193,921</u>	<u>1,200,785</u>	<u>500</u>	<u>594,156</u>	<u>4,476,173</u>
Expenditures:						
Current:						
General government	1,177,316	-	-	-	1	1,177,317
Security of persons and property	249,087	-	1,149,986	-	7,043	1,406,116
Public health and welfare	47,693	-	-	-	-	47,693
Transportation	-	1,028,889	-	-	32,256	1,061,145
Community environment	225,413	-	-	-	795	226,208
Leisure time activity	-	-	-	-	118,725	118,725
Capital outlay	-	-	-	1,121,589	154,936	1,276,525
Debt service:						
Principal retirement	-	61,215	62,302	-	9,107	132,624
Interest and fiscal charges	-	6,018	1,862	-	7,083	14,963
Total expenditures	<u>1,699,509</u>	<u>1,096,122</u>	<u>1,214,150</u>	<u>1,121,589</u>	<u>329,946</u>	<u>5,461,316</u>
Net change in fund balances	(212,698)	97,799	(13,365)	(1,121,089)	264,210	(985,143)
Fund balances at beginning of year	899,994	412,081	83,946	-	41,468	1,437,489
Fund balances (deficit) at end of year	<u>\$ 687,296</u>	<u>\$ 509,880</u>	<u>\$ 70,581</u>	<u>\$ (1,121,089)</u>	<u>\$ 305,678</u>	<u>\$ 452,346</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, 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 \$ (985,143)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Capital outlay exceeds depreciation expense in the current period accordingly.

Capital asset additions	\$	1,635,411	
Current year depreciation		<u>(291,969)</u>	
			1,343,442

The net effect of various miscellaneous transactions involving capital assets is to decrease net assets. (3,028)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 107,326

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 132,624

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds (1,814)

Change in net assets of governmental activities \$ 593,407

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, 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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other taxes	\$ 732,451	\$ 732,451	\$ 716,410	\$ (16,041)
Charges for services	73,798	73,798	73,022	(776)
Licenses and permits.	273,316	273,316	270,443	(2,873)
Fines and forfeitures.	12,341	12,341	12,211	(130)
Intergovernmental	258,093	258,093	255,380	(2,713)
Investment income	58,898	58,898	58,279	(619)
Other	29,876	29,876	29,562	(314)
Total revenues.	<u>1,438,773</u>	<u>1,438,773</u>	<u>1,415,307</u>	<u>(23,466)</u>
Expenditures:				
Current:				
General government	1,629,372	1,629,372	1,160,954	468,418
Security of persons and property	353,889	353,889	252,152	101,737
Public health and welfare.	66,936	66,936	47,693	19,243
Community environment	314,484	314,484	224,075	90,409
Total expenditures	<u>2,364,681</u>	<u>2,364,681</u>	<u>1,684,874</u>	<u>679,807</u>
Net change in fund balance	(925,908)	(925,908)	(269,567)	656,341
Fund balance at beginning of year	<u>925,908</u>	<u>925,908</u>	<u>925,908</u>	<u>-</u>
Fund balance at end of year.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 656,341</u>	<u>\$ 656,341</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, 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>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property and other taxes	\$ 471,153	\$ 471,153	\$ 522,947	\$ 51,794
Intergovernmental	562,892	562,892	625,224	62,332
Investment income	2,778	2,778	3,086	308
Other	18,768	18,768	20,846	2,078
Total revenues.	<u>1,055,591</u>	<u>1,055,591</u>	<u>1,172,103</u>	<u>116,512</u>
Expenditures:				
Current:				
Transportation	<u>1,409,224</u>	<u>1,409,224</u>	<u>1,113,395</u>	<u>295,829</u>
Total expenditures	<u>1,409,224</u>	<u>1,409,224</u>	<u>1,113,395</u>	<u>295,829</u>
Net change in fund balance	(353,633)	(353,633)	58,708	412,341
Fund balance at beginning of year	<u>353,633</u>	<u>353,633</u>	<u>353,633</u>	<u>-</u>
Fund balance at end of year.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,341</u>	<u>\$ 412,341</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 POLICE LEVY 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:				
Property and other taxes	\$ 992,690	\$ 992,690	\$ 1,025,690	\$ 33,000
Intergovernmental	141,543	141,543	146,248	4,705
Other	12,311	12,311	12,720	409
Total revenues.	<u>1,146,544</u>	<u>1,146,544</u>	<u>1,184,658</u>	<u>38,114</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,274,220</u>	<u>1,274,220</u>	<u>1,170,253</u>	<u>103,967</u>
Total expenditures	<u>1,274,220</u>	<u>1,274,220</u>	<u>1,170,253</u>	<u>103,967</u>
Net change in fund balance	(127,676)	(127,676)	14,405	142,081
Fund balance at beginning of year	<u>127,676</u>	<u>127,676</u>	<u>127,676</u>	<u>-</u>
Fund balance at end of year.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 142,081</u>	<u>\$ 142,081</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2005

	<u>Business-type Activities -Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 6,686,486	\$ 2,094,867	\$ 8,781,353
Receivables (net of allowance for uncollectibles):			
Accounts	107,355	125,828	233,183
Prepayments	4,597	4,631	9,228
Materials and supplies inventory	2,325	1,050	3,375
Total current assets	<u>6,800,763</u>	<u>2,226,376</u>	<u>9,027,139</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress	878,340	324,141	1,202,481
Depreciable capital assets, net	2,224,416	2,454,356	4,678,772
Total capital assets, net	<u>3,102,756</u>	<u>2,778,497</u>	<u>5,881,253</u>
Total noncurrent assets	<u>3,102,756</u>	<u>2,778,497</u>	<u>5,881,253</u>
Total assets.	<u>9,903,519</u>	<u>5,004,873</u>	<u>14,908,392</u>
Liabilities:			
Current liabilities:			
Accounts payable	27,286	26,591	53,877
Contracts payable	547,588	-	547,588
Accrued wages and benefits	12,659	20,921	33,580
Compensated absences	9,110	11,467	20,577
Pension obligation	7,528	8,554	16,082
Accrued interest payable.	108,002	3,608	111,610
General obligation bonds.	-	35,000	35,000
OWDA loans.	83,619	170,563	254,182
Notes payable	6,245,000	-	6,245,000
Total current liabilities	<u>7,040,792</u>	<u>276,704</u>	<u>7,317,496</u>
Long-term liabilities:			
General obligation bonds	-	675,000	675,000
OWDA loans	484,424	821,174	1,305,598
Compensated absences	6,848	-	6,848
Total long-term liabilities	<u>491,272</u>	<u>1,496,174</u>	<u>1,987,446</u>
Total liabilities.	<u>7,532,064</u>	<u>1,772,878</u>	<u>9,304,942</u>
Net assets:			
Invested in capital assets, net of related debt . . .	1,039,713	1,076,760	2,116,473
Unrestricted.	1,331,742	2,155,235	3,486,977
Total net assets	<u>\$ 2,371,455</u>	<u>\$ 3,231,995</u>	<u>\$ 5,603,450</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 1,120,539	\$ 1,108,618	\$ 2,229,157
Other	45,210	23,487	68,697
Total operating revenues	<u>1,165,749</u>	<u>1,132,105</u>	<u>2,297,854</u>
Operating expenses:			
Personal services	296,762	165,753	462,515
Contract services	214,558	138,252	352,810
Depreciation	171,513	145,216	316,729
Other	54,189	37,727	91,916
Total operating expenses.	<u>737,022</u>	<u>486,948</u>	<u>1,223,970</u>
Operating income	<u>428,727</u>	<u>645,157</u>	<u>1,073,884</u>
Nonoperating revenues (expenses):			
Interest revenue.	85,519	58,197	143,716
Interest expense and fiscal charges	<u>(157,504)</u>	<u>(125,473)</u>	<u>(282,977)</u>
Total nonoperating expenses	<u>(71,985)</u>	<u>(67,276)</u>	<u>(139,261)</u>
Changes in net assets	356,742	577,881	934,623
Net assets at beginning of year	<u>2,014,713</u>	<u>2,654,114</u>	<u>4,668,827</u>
Net assets at end of year.	<u>\$ 2,371,455</u>	<u>\$ 3,231,995</u>	<u>\$ 5,603,450</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from charges for services	\$ 1,118,522	\$ 1,089,699	\$ 2,208,221
Cash received from other operations	45,210	23,487	68,697
Cash payments for personal services	(284,245)	(148,678)	(432,923)
Cash payments for contract services.	(215,359)	(137,279)	(352,638)
Cash payments for other expenses	(56,323)	(18,519)	(74,842)
Net cash provided by operating activities.	<u>607,805</u>	<u>808,710</u>	<u>1,416,515</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets.	(86,390)	(122,772)	(209,162)
Principal retirement on bonds.	-	(30,000)	(30,000)
Principal retirement on ODWA loans.	(76,378)	(158,590)	(234,968)
Principal retirement on notes.	(1,595,000)	-	(1,595,000)
Interest and fiscal charges.	(71,832)	(125,623)	(197,455)
Note issuance	6,245,000	-	6,245,000
Net cash provided by (used in) capital and related financing activities	<u>4,415,400</u>	<u>(436,985)</u>	<u>3,978,415</u>
Cash flows from investing activities:			
Interest received.	<u>85,519</u>	<u>58,197</u>	<u>143,716</u>
Net cash provided by investing activities.	<u>85,519</u>	<u>58,197</u>	<u>143,716</u>
Net increase in cash and cash equivalents.	<u>5,108,724</u>	<u>429,922</u>	<u>5,538,646</u>
Cash and cash equivalents at beginning of year	<u>1,577,762</u>	<u>1,664,945</u>	<u>3,242,707</u>
Cash and cash equivalents at end of year.	<u>\$ 6,686,486</u>	<u>\$ 2,094,867</u>	<u>\$ 8,781,353</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 428,727	\$ 645,157	\$ 1,073,884
Adjustments:			
Depreciation	171,513	145,216	316,729
Changes in assets and liabilities:			
(Increase) in accounts receivable	(2,017)	(18,919)	(20,936)
(Increase) decrease in materials and supplies inventory	1,600	(350)	1,250
(Increase) decrease in prepayments	(427)	401	(26)
Increase (decrease) in accounts payable.	(2,997)	17,365	14,368
Increase in accrued wages and benefits	5,183	12,427	17,610
Increase in compensated absences payable	5,290	5,008	10,298
Increase in pension obligation payable	933	2,405	3,338
Net cash provided by operating activities	<u>\$ 607,805</u>	<u>\$ 808,710</u>	<u>\$ 1,416,515</u>

At December 31, 2005, the Water fund purchased \$547,588 in capital assets (CIP) on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2005

	<u>Agency</u>
Assets:	
Cash in segregated accounts	\$ 92
Total assets.	<u>\$ 92</u>
Liabilities:	
Undistributed monies	\$ 92
Total liabilities	<u>\$ 92</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

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

NOTE 1 - DESCRIPTION OF THE CITY

The City of Pataskala, Licking County, Ohio (the "City") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a government that is directed by a publicly-elected seven-member Council, and a Mayor. The city administrator is the chief executive officer, and the finance director is the chief fiscal officer. The City provides the following services: general government, including water and sewer utilities, police protection, parks and recreation, public health, street maintenance and community development.

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 to 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 most significant of the City's 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 primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, water and sewer services. Council and the City Manager are directly responsible for these activities. During 2005, the City of Newark processed the Mayor's Court activities on behalf of the City. The accompanying financial statements present the City, which has no component units. The following organizations are described due to their relationship with the City:

JOINTLY GOVERNED ORGANIZATIONS

West Licking Joint Fire District - The West Licking Joint Fire District, a jointly governed organization, is a political subdivision governed by a board of trustees which possesses its own contracting and budgeting authority. The board of trustees consists of one representative from each of the participating governments; the City of Pataskala, the Village of Kirkersville, Harrison Township, Etna Township, City of Reynoldsburg and Jersey Township. The City made no contributions during 2005 for the operation of the Joint Fire District.

CITY OF PATASKALA, OHIO

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

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

Southwest Licking Community Water and Sewer District - The Southwest Licking Community Water and Sewer District, a jointly governed organization, is a political subdivision governed by a board of trustees which possesses its own contracting and budgeting authority. The City Council of Pataskala appoints one member of the Sewer District and the remaining members are appointed by Harrison and Etna Townships. The City made no contributions during 2005 for the operation of the District.

B. Basis of Presentation - Fund Accounting

The City's BFS consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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. Fiduciary funds are reported by type.

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:

CITY OF PATASKALA, OHIO

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

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police protection, public health activities, cemetery, and the general administration of City functions.

Street Fund - The street fund accounts for revenues generated from license and gasoline taxes to be used on local roads within the City.

Police Levy Fund - This fund accounts for revenues collected for police operations.

Municipal Building Purchase Fund - This fund is used to account for the purchase of the municipal building.

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; and (b) 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. The City has no internal service funds.

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.

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 has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund includes the Mayor's Court activity.

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.

CITY OF PATASKALA, OHIO

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

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

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

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 funds include personnel and other expenses related to the operations of the enterprise activities. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

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

CITY OF PATASKALA, OHIO

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). 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: 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.

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. The legal level of budgetary control is at the fund, department, (i.e. police), and object (i.e. materials and supplies) level 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.

CITY OF PATASKALA, OHIO

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

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

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 unencumbered 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 original and 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, object, department level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund, department, object 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 original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

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

G. Cash and Cash Equivalents

Cash balances of the City's funds, except cash held by a fiscal agent, are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the financial statements as "Equity in Pooled Cash and Cash Equivalents."

During 2005, investments were limited to nonnegotiable certificates of deposit and a repurchase agreement. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

The City has a segregated bank account for Mayor's Court monies separate from the City's central bank account. This interest bearing depository account is presented on the financial statements as "Cash in Segregated Accounts" since it is not required to be deposited into the City treasury.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2005 amounted to \$58,935, which included \$52,637 assigned from other funds of the City.

CITY OF PATASKALA, OHIO

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

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

For purposes of the statement of cash flows and for presentation on the financial statement, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments, to the extent they are purchased from a specific fund.

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

H. Inventories of Materials and Supplies

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

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. The City began reporting infrastructure in 2004. 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>	Governmental Activities <u>Estimated Lives</u>	Business-type Activities <u>Estimated Lives</u>
Improvements to land	5 - 20 years	5 - 20 years
Buildings	20 - 60 years	20 - 60 years
Equipment	5 - 15 years	5 - 15 years
Vehicles	8 years	8 years
Infrastructure	15 - 75 years	80 years

CITY OF PATASKALA, OHIO

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

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

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 accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service or any employee with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16. Sick leave benefits were accrued using the "vesting" method.

The total liability for vacation, compensatory time, 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. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

L. 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.

CITY OF PATASKALA, OHIO

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

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

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.

M. Interfund Activity

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

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

N. Fund Balance Reserves

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

The City reports a reservation of fund balance for amounts representing prepayments, materials and supplies inventory, restricted assets, and debt service in the governmental fund financial statements.

O. Estimates

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

P. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. There were no capital contributions during 2005.

Q. Net Assets

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

CITY OF PATASKALA, OHIO

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

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

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

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

S. Extraordinary Item

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.

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 for GASB Statement No. 40.

B. Deficit Fund Balances

Fund balances at December 31, 2005, included the following individual fund deficits:

<u>Major</u>	<u>Deficit</u>
Municipal Building Purchase	\$1,121,089
 <u>Nonmajor</u>	
Courter Bridge Improvement	214,120

CITY OF PATASKALA, OHIO

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur. The deficit fund balance in the municipal building purchase fund resulted from the reporting of a note payable as a fund liability (see Note 11). The deficit balance in the Courter Bridge improvement fund resulted from accrued liabilities.

C. Appropriations

The following funds had expenditures in excess of appropriations for the years ended December 31, 2005 in noncompliance with Ohio Revised Code Section 5705.41(B):

<u>Fund/Department/Object</u>	<u>Excess</u>
<u>2005</u>	
<u>Major Fund</u>	
Policy Levy	
Security of Persons and Property	
Supplies	\$ 4,279
<u>Nonmajor Fund</u>	
Municipal Building Purchase	
Capital outlay	
Capital outlay	1,121,589

D. Purchase Orders

The City did not properly certify disbursements which is contrary to Ohio Revised Code Section 5705.41(D).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 Finance Director 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.

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

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash with Fiscal and Escrow Agent

At year-end, the City had \$15,985 on deposit with the Licking County Treasurer. The data regarding insurance and collateralization can be obtained from the Licking County Comprehensive Annual Financial Report for the year ended December 31, 2005. This amount is not included in the City's depository balance below.

B. Cash in Segregated Accounts

At year-end, the City had \$92 deposited with a financial institution for monies related to the Mayor's Court which reported as a component of the City's general fund. This amount is included in the City's depository balance.

C. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all City deposits was \$8,757,313. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$8,607,131 of the City's bank balance of \$8,871,276 was exposed to custodial risk as discussed below, while \$264,145 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.

D. Investments

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreements	\$ 1,933,340	\$ 1,933,340
	<u>\$ 1,933,340</u>	<u>\$ 1,933,340</u>

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

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:

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreements	\$ 1,933,340	100.00%
	<u>\$ 1,933,340</u>	<u>100.00%</u>

E. 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	\$ 8,757,313
Investments	1,933,340
Cash with fiscal and escrow agent	<u>15,985</u>
Total	<u>\$ 10,706,638</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,925,193
Business type activities	8,781,353
Agency fund	<u>92</u>
Total	<u>\$ 10,706,638</u>

NOTE 5 - 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. The last revaluation was completed in May 2004. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 25 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF PATASKALA, OHIO

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

NOTE 5 - PROPERTY TAXES - (Continued)

The Licking County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. 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 \$10.40 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	\$ 288,289,460
Public utility tangible personal property	7,793,230
Tangible personal property	<u>9,705,090</u>
Total assessed valuation	<u>\$ 305,787,780</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 sixty days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), 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 2006 operations.

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

Governmental Activities:

Real and other taxes	\$2,799,360
Accounts	81,862
Due from other governments	696,031

Business-type Activities:

Accounts	233,183
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Receivables have been disaggregated on the face of the BFS. All receivables are expected to be collected within the subsequent year.

CITY OF PATASKALA, OHIO

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

NOTE 7 - CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 800,080	\$ 369,360	\$ -	\$ 1,169,440
Total capital assets, not being depreciated	<u>800,080</u>	<u>369,360</u>	<u>-</u>	<u>1,169,440</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	142,095	-	-	142,095
Buildings and improvements	458,754	880,640	-	1,339,394
Equipment	582,123	144,654	(15,020)	711,757
Vehicles	1,459,848	-	(28,500)	1,431,348
Infrastructure	<u>1,086,966</u>	<u>240,757</u>	<u>-</u>	<u>1,327,723</u>
Total capital assets, being depreciated	<u>3,729,786</u>	<u>1,266,051</u>	<u>(43,520)</u>	<u>4,952,317</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(56,350)	(8,534)	-	(64,884)
Buildings and improvements	(197,478)	(24,976)	-	(222,454)
Equipment	(335,116)	(38,642)	11,992	(361,766)
Vehicles	(1,015,276)	(159,219)	28,500	(1,145,995)
Infrastructure	<u>(21,809)</u>	<u>(60,598)</u>	<u>-</u>	<u>(82,407)</u>
Total accumulated depreciation	<u>(1,626,029)</u>	<u>(291,969)</u>	<u>40,492</u>	<u>(1,877,506)</u>
Total capital assets, being depreciated, net	<u>2,103,757</u>	<u>974,082</u>	<u>(3,028)</u>	<u>3,074,811</u>
Governmental activities capital assets, net	<u>\$ 2,903,837</u>	<u>\$ 1,343,442</u>	<u>\$ (3,028)</u>	<u>\$ 4,244,251</u>

CITY OF PATASKALA, OHIO

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

NOTE 7 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Balance <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 654,893	\$ -	\$ -	\$ 654,893
Construction in progress	<u>-</u>	<u>547,588</u>	<u>-</u>	<u>547,588</u>
Total capital assets, not being depreciated	<u>654,893</u>	<u>547,588</u>	<u>-</u>	<u>1,202,481</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	105,881	-	-	105,881
Buildings and improvements	2,224,643	-	-	2,224,643
Equipment	1,343,251	-	-	1,343,251
Infrastructure	<u>5,426,034</u>	<u>209,162</u>	<u>-</u>	<u>5,635,196</u>
Total capital assets, being depreciated	<u>9,099,809</u>	<u>209,162</u>	<u>-</u>	<u>9,308,971</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(96,332)	(2,122)	-	(98,454)
Buildings and improvements	(923,646)	(68,171)	-	(991,817)
Equipment	(575,614)	(67,165)	-	(642,779)
Infrastructure	<u>(2,717,878)</u>	<u>(179,271)</u>	<u>-</u>	<u>(2,897,149)</u>
Total accumulated depreciation	<u>(4,313,470)</u>	<u>(316,729)</u>	<u>-</u>	<u>(4,630,199)</u>
Total capital assets, being depreciated, net	<u>4,786,339</u>	<u>(107,567)</u>	<u>-</u>	<u>4,678,772</u>
Business-type activities capital assets, net	<u>\$ 5,441,232</u>	<u>\$ 440,021</u>	<u>\$ -</u>	<u>\$ 5,881,253</u>

CITY OF PATASKALA, OHIO

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

NOTE 7 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 28,726
Security of persons and property	1,200
Leisure time activity	74,608
Transportation	159,843
Community environment	<u>27,592</u>
Total depreciation expense - governmental activities	<u>\$291,969</u>

NOTE 8 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation at different rates which are also affected by length of service. Vacation is accrued each pay and may be carried over. The maximum number of hours which may be accrued is based on years of service. Vacation and sick leave accumulated by governmental fund type employees has been recorded in the general long-term obligations account group to the extent they were not paid using current expendable available resources. Vacation and sick leave earned by proprietary funds type employees is expensed when earned and has been recorded in the fund.

Employees earn compensatory-time and may accrue a maximum of forty hours, except police officers may accrue a maximum of eighty hours, which may be carried forward to the next year.

As of December 31, 2005, the liability for compensated absences in governmental fund types was \$73,383, and \$27,425 was the liability for compensated absences reported in the enterprise funds. The total liability for the City's compensated absences reported on the statement of net assets was \$100,808.

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2003, the City entered into capital lease agreements for the acquisition of vehicles. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund. The leased vehicles are included in capital assets in the amount of \$574,812.

For the City, a corresponding liability was recorded in the statement of net assets. Principal payments in 2005 totaled \$132,624 in the governmental funds. Capital lease payments in the governmental funds have been reclassified on the financial statements to reflect debt principal and interest payments. These payments are reported as program expenditures on the budgetary statement.

CITY OF PATASKALA, OHIO

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

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005.

<u>Year Ending</u> <u>December 31,</u>	<u>General</u>
2006	<u>\$ 77,234</u>
Total future minimum lease payments	77,234
Less: amount representing interest	<u>(3,537)</u>
Present value of net minimum lease payments	<u>\$ 73,697</u>

NOTE 10 - LONG-TERM OBLIGATIONS

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

Governmental Activities:	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due in</u> <u>One Year</u>
Capital Lease Obligation	\$ 206,321	\$ -	\$ (132,624)	\$ 73,697	\$ 73,697
Compensated Absences	<u>71,569</u>	<u>59,300</u>	<u>(57,486)</u>	<u>73,383</u>	<u>54,649</u>
Total governmental activities long-term obligations	<u>\$ 277,890</u>	<u>\$ 59,300</u>	<u>\$ (190,110)</u>	<u>\$ 147,080</u>	<u>\$ 128,346</u>

Compensated Absences: Sick leave, compensatory time and vacation benefits are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid.

Capital Lease Obligation: Capital lease payments are made from the Police Levy and Street funds. See Note 9 for details on capital leases.

CITY OF PATASKALA, OHIO

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** During the fiscal year 2005, the following changes occurred in the City's business-type long-term liabilities:

Business-Type Activities:	<u>Interest</u> <u>Rate</u>	<u>Balance at</u> <u>12/31/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>12/31/05</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
<u>General Obligation Revenue Bonds</u>						
Sewer Bonds	5.50-6.125%	\$ 740,000	\$ -	\$ (30,000)	\$ 710,000	\$ 35,000
Total general obligation revenue bonds	3.0-6.3%	740,000	-	(30,000)	710,000	35,000
<u>OWDA Loans</u>						
Sewer Plant OWDA Loan	7.55%	1,150,327	-	(158,590)	991,737	170,563
Water System OWDA Loan	10.57%	644,421	-	(76,378)	568,043	83,619
Total OWDA loans		1,794,748	-	(234,968)	1,559,780	254,182
<u>Other Obligations</u>						
Compensated absences		17,127	24,823	(14,525)	27,425	20,577
Total other obligations		17,127	24,823	(14,525)	27,425	20,577
Total business-type activities long-term obligations		<u>\$ 2,551,875</u>	<u>\$ 24,823</u>	<u>\$ (279,493)</u>	<u>\$ 2,297,205</u>	<u>\$ 309,759</u>

General Obligation Revenue Bonds: The sewer bonds are general obligation revenue bonds, which are supported by the full faith and credit of the City. The bonds will be retired with operating revenues of the sewer fund to the extent such revenues are available, or from the general operating revenues of the City.

OWDA Loans: The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2005, the City has outstanding borrowings with permissible borrowings of \$1,559,780. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

Compensated Absences: Sick leave, compensatory time and vacation benefits are presented net of actual increases and decreases because of the practicality of determining these values. Compensated absences reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid.

CITY OF PATASKALA, OHIO

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The annual requirements to amortize enterprise fund obligations outstanding as of year-end are as follows:

Year	General Obligation Revenue Bonds			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 35,000	\$ 43,300	\$ 78,300	\$ 254,182	\$128,727	\$ 382,909
2007	35,000	41,200	76,200	274,986	107,921	382,907
2008	40,000	39,100	79,100	297,514	85,393	382,907
2009	40,000	36,700	76,700	321,910	60,996	382,906
2010	40,000	34,300	74,300	348,385	34,576	382,961
2011 - 2015	255,000	129,544	384,544	62,803	5,931	68,734
2016 - 2019	<u>265,000</u>	<u>41,651</u>	<u>306,651</u>	-	-	-
Total	<u>\$710,000</u>	<u>\$365,795</u>	<u>\$1,075,795</u>	<u>\$1,559,780</u>	<u>\$423,544</u>	<u>\$1,983,324</u>

C. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$29,870,247 and \$14,548,548, respectively, at December 31, 2005.

NOTE 11 - NOTES PAYABLE

The City had the following note activity for fiscal year 2005:

Governmental Activities	Interest	Issue	Maturity	Balance	Issued	Retired	Balance
	Rate	Date	Date	12/31/04			12/31/05
Bridge Improvement	2.75%	09/23/04	09/22/05	\$ 225,000	\$ -	\$ (225,000)	\$ -
Bridge Improvement	4.00%	09/01/05	08/31/06	-	212,000	-	212,000
Municipal Building	6.00%	12/29/05	12/29/06	-	465,000	-	465,000
Municipal Building	4.50%	12/29/05	12/29/06	-	<u>860,000</u>	-	<u>860,000</u>
Total Governmental				<u>225,000</u>	<u>1,537,000</u>	<u>(225,000)</u>	<u>1,537,000</u>
<u>Business-type Activities</u>							
Water Tower/System	3.78%	02/25/04	02/23/05	1,595,000	-	(1,595,000)	-
Water Tower/System	2.95%	02/23/05	02/23/06	-	1,495,000	-	1,495,000
Water Treatment Plant	4.00%	09/01/05	08/31/06	-	<u>4,750,000</u>	-	<u>4,750,000</u>
Total Business-type				<u>1,595,000</u>	<u>6,245,000</u>	<u>(1,595,000)</u>	<u>6,245,000</u>
Total				<u>\$1,820,000</u>	<u>\$7,782,000</u>	<u>\$ (1,820,000)</u>	<u>\$7,782,000</u>

CITY OF PATASKALA, OHIO

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

NOTE 11 - NOTES PAYABLE - (Continued)

The City issued \$4,962,000 in bond anticipation notes on September 1, 2005. \$212,000 of the proceeds were used to fund the bridge improvement project while \$4,750,000 were used to fund the water treatment plant project. The proceeds were recorded in the capital projects fund and water fund, respectively. The notes have a 4.00% interest rate and are scheduled to mature on August 31, 2006.

On December 29, 2005 the City issued \$1,325,000 in bond anticipation notes to fund the purchase of the City municipal building. The total proceeds were split between a \$465,000 taxable note carrying a 6.00% interest rate and an \$860,000 tax-exempt note carrying a 4.50% interest rate. The proceeds were recorded in the capital projects fund. Both notes are scheduled to mature on September 28, 2006.

The City issued \$1,495,000 in bond anticipation notes February 23, 2005 to fund the water tower system project. The proceeds were recorded in the water fund. The notes have a 2.95% interest rate and are scheduled to mature on February 23, 2006.

NOTE 12 - RISK MANAGEMENT

A. Property and Casualty Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City purchases fire and extended coverage insurance on all buildings and contents to \$2,000,000 with a variety of deductibles beginning with \$0 to \$5,000. Coverage is purchased on City vehicles for a combined single limit liability of \$2,000,000. The City purchases general liability insurance coverage with a \$2,000,000 limit per occurrence. The City also has an umbrella policy which provides an additional \$75,000 in coverage over and above listed policies.

B. Employee Medical, Dental, Vision and Life

The City provides employee medical, dental, vision and life insurance through traditional insurance carriers. Medical insurance is provided by United Health Care, dental is provided by Principal Insurance Group, vision is provided by Vision Service Plan and life insurance is provided by Anthem. The risk of loss transfers entirely to the insurance carriers. The City pays 100% of the premiums.

C. Workers' Compensation

The City participates in the Ohio Municipal League (OML) public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald Company. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

There were no significant reductions in insurance coverage from the prior year in any category of risk. Claims have not exceeded coverage limitations in any of the past three years.

PEP retains casualty risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

CITY OF PATASKALA, OHIO

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

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 13.31% 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 \$93,775, \$80,890, and \$134,440, respectively; 100% has been contributed for 2005, 2004 and 2003. The City and plan members did not make any contributions to the member-directed plan for 2005.

B. Ohio Police and Fire Pension Fund

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

CITY OF PATASKALA, OHIO

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for the police and firefighters were \$100,642 and \$39,139 for the year ended December 31, 2005, \$92,982 and \$36,156 for the year ended December 31, 2004, and \$96,566 and \$36,387 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 72% for police and 28% for firefighters has been contributed for 2005 with the remainder being reported as a liability.

NOTE 14 - 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 2004 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 OPER's latest actuarial review performed as of December 31, 2005, 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 eight 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 \$34,603. The actual contribution and the actuarially required contribution amounts are the same. OPERS 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' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

CITY OF PATASKALA, OHIO

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

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits was \$39,999 for police and \$12,639 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

NOTE 15 - 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 is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

CITY OF PATASKALA, OHIO

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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.

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

Net Change in Fund Balance

	<u>General</u>	<u>Street</u>	<u>Police Levy</u>
Budget basis	\$ (269,567)	\$ 58,708	\$ 14,405
Net adjustment for revenue accruals	71,504	21,818	16,127
Net adjustment for expenditure accruals	<u>(14,635)</u>	<u>17,273</u>	<u>(43,897)</u>
GAAP basis	<u>\$ (212,698)</u>	<u>\$ 97,799</u>	<u>\$ (13,365)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

B. Litigation

The City is involved in various lawsuits. The City's management and legal counsel is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect on the financial condition of the City.

NOTE 17 - SUBSEQUENT EVENTS

The City issued \$1,395,000 in bond anticipation notes on February 22, 2006, to retire \$1,495,000 in bond anticipation notes outstanding at December 31, 2005. The notes mature on February 21, 2007 and bear an interest rate of 4.500%.



Julian & Grube, Inc.
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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Members of Council and Mayor
City of Pataskala
621 W. Broad Street
Pataskala, Ohio 43062

We have audited the basic financial statements consisting of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Pataskala, Licking County (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 June 1, 2006. 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 by 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated June 1, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-COP-001 and 2005-COP-002. We also noted certain immaterial instances of noncompliance or other matters that we have reported to the management in a separate letter dated June 1, 2006.

Members of Council and Mayor
City of Pataskala, Licking County

This report is intended solely for the information of the Council and management of the City of Pataskala and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a flourish at the end.

Julian & Grube, Inc.
June 1, 2006

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2005-COP-001

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

It was noted during the audit that the City of Pataskala had expenditures exceeding appropriations in the following funds:

<u>Fund/Department/Object</u>	<u>Excess</u>
<u>2005</u>	
<u>Major Fund</u>	
Policy Levy	
Security of Persons and Property	
Supplies	\$ 4,279
<u>Nonmajor Fund</u>	
Municipal Building Purchase	
Capital outlay	
Capital outlay	1,121,589

With expenditures exceeding appropriations, the City of Pataskala is expending monies that have not been appropriated and approved by the City Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City of Pataskala comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The City of Pataskala is attempting to monitor its budget more closely and to increase its appropriations as needed.

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-COP-002

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the disbursement of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

It was noted during the audit that the City of Pataskala does not always process purchase orders prior to expending funds in a timely matter.

Without timely certification and approval, the City of Pataskala may expend more funds than available in the treasury, in the process of collection or than funds appropriated.

We recommend that the City of Pataskala implement a policy and procedure for purchases involving the expenditure of money be timely certified to insure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The City of Pataskala should issue approved purchase orders prior to purchases and consider using the then and now certificates where applicable.

Client Response: The City Manager is attempting to utilize the “then and now” certificates when applicable and use the purchase order system correctly.



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CITY OF PATASKALA

LICKING 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
AUGUST 3, 2006**