

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS

*FOR THE YEAR ENDED
DECEMBER 31, 2006*

JASON CARR, FINANCE DIRECTOR



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Pataskala, Licking County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 15, 2007

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**CITY OF PATASKALA
LICKING COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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Julian & Grube, Inc.
Serving Ohio Local Governments

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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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 respective 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, Ohio, as of December 31, 2006, 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 May 18, 2007 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.".

Julian & Grube, Inc.
May 18, 2007

CITY OF PATASKALA, OHIO

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

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, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$1,665,271. Net assets of governmental activities increased \$973,815 or 18.70%. Net assets of business-type activities increased \$691,456 or 12.34% over 2005.
- General revenues accounted for \$3,358,978 or 62.39% of total governmental activities revenue. Program specific revenues accounted for \$2,025,223 or 37.61% of total governmental activities revenue.
- The City had \$4,410,386 in expenses related to governmental activities; \$2,025,223 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,385,163 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$3,358,978.
- The general fund had revenues of \$1,676,917 in 2006. This represents an increase of \$190,106 from 2005 revenues. The expenditures of the general fund, which totaled \$1,548,800 in 2006, decreased \$150,709 from \$1,699,509 in 2005. The net increase in fund balance for the general fund was \$128,117 or 18.64%, resulting in an ending fund balance of \$815,413.
- The Street fund had revenues of \$1,255,163 in 2006, which is an increase of \$61,242 from 2005 revenues. The expenditures in the Street fund totaled \$753,344 in 2006, which decreased \$342,778 from \$1,096,122 for 2005. The net increase in fund balance was \$501,819 or 98.42%, resulting in an ending fund balance of \$1,011,699.
- The Police Levy fund had revenues of \$1,469,917 in 2006, which is an increase of \$269,132 from 2005 revenues. The expenditures in the police levy fund totaled \$1,464,755 in 2006, which increased \$250,605 from \$1,214,150 in 2005. The net increase in fund balance was \$5,162 or 7.31%, resulting in an ending fund balance of \$75,743.
- The Municipal Building Purchase fund had no revenues during 2006. The expenditures in the Municipal Building Purchase fund totaled \$144,431 causing a decrease in fund balance of \$144,431 with an ending fund balance deficit of \$1,265,520. This fund reports a \$1,325,000 note payable as a fund liability.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2006 by \$691,456. This increase in net assets was due primarily to an increase in capital contributions during 2006.
- In the general fund, the actual revenues came in \$209,193 more than they were in the final budget and \$301,167 more than they were in the original budget. Actual expenditures were \$598,194 less than the amount in the final budget and \$683,194 less than they were in the original budget. These variances are the result of the City's conservative budgeting.

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, 2006

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

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, 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, variations of economic 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.

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF PATASKALA, OHIO

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

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 special revenue fund, Police Levy special revenue fund and the Municipal Building Purchase capital projects 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 - 28 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 29 - 31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary fund is an agency fund. The basic fiduciary fund financial statements can be found on page 32 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 33 - 59 of this report.

CITY OF PATASKALA, OHIO

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

Government-Wide Financial Analysis

The table below provides a summary of the City's assets, liabilities and net assets at December 31, 2006 and 2005:

	Governmental Activities		Net Assets Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current and other assets	\$ 5,566,047	\$ 5,563,151	\$ 5,426,653	\$ 9,027,139	\$ 10,992,700	\$ 14,590,290
Capital assets, net	4,653,377	4,244,251	9,544,234	5,881,253	14,197,611	10,125,504
Total assets	<u>10,219,424</u>	<u>9,807,402</u>	<u>14,970,887</u>	<u>14,908,392</u>	<u>25,190,311</u>	<u>24,715,794</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	82,552	147,080	2,006,848	2,297,205	2,089,400	2,444,285
Other liabilities	3,955,206	4,452,471	6,669,133	707,737	10,624,339	11,460,208
Total liabilities	<u>4,037,758</u>	<u>4,599,551</u>	<u>8,675,981</u>	<u>9,304,942</u>	<u>12,713,739</u>	<u>13,904,493</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	3,123,377	2,633,554	3,325,935	2,116,473	6,449,312	4,750,027
Restricted	1,997,516	1,396,747	-	-	1,997,516	1,396,747
Unrestricted	1,060,773	1,177,550	2,968,971	3,486,977	4,029,744	4,664,527
Total net assets	<u>\$ 6,181,666</u>	<u>\$ 5,207,851</u>	<u>\$ 6,294,906</u>	<u>\$ 5,603,450</u>	<u>\$ 12,476,572</u>	<u>\$ 10,811,301</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$12,479,572. At year-end, net assets were \$6,181,666 and \$6,294,906 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 56.36% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$3,123,377 and \$3,325,935 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, 2006, 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 governmental activities net assets, \$1,997,516, 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 \$1,060,773 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, 2006**

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

	Governmental Activities		Change in Net Assets Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services and sales	\$ 579,803	\$ 521,941	\$ 1,877,525	\$ 2,229,157	\$ 2,457,328	\$ 2,751,098
Operating grants and contributions	1,080,854	1,107,832	-	-	1,080,854	1,107,832
Capital grants and contributions	364,566	240,758	297,414	-	661,980	240,758
General revenues:						
Property taxes	2,695,514	2,190,009	-	-	2,695,514	2,190,009
Unrestricted grants	434,943	338,895	-	-	434,943	338,895
Interest	110,276	61,951	271,525	143,716	381,801	205,667
Other	118,245	122,113	17,318	68,697	135,563	190,810
Total revenues	5,384,201	4,583,499	2,463,782	2,441,570	7,847,983	7,025,069
Expenses:						
General government	1,131,868	1,217,964	-	-	1,131,868	1,217,964
Security of persons and property	1,613,421	1,411,576	-	-	1,613,421	1,411,576
Public health and welfare	57,000	47,693	-	-	57,000	47,693
Transportation	1,004,060	774,839	-	-	1,004,060	774,839
Community environment	329,149	386,665	-	-	329,149	386,665
Leisure time activity	206,123	136,392	-	-	206,123	136,392
Interest and fiscal charges	68,765	14,963	-	-	68,765	14,963
Water	-	-	964,444	894,526	964,444	894,526
Sewer	-	-	807,882	612,421	807,882	612,421
Total expenses	4,410,386	3,990,092	1,772,326	1,506,947	6,182,712	5,497,039
Change in net assets	973,815	593,407	691,456	934,623	1,665,271	1,528,030
Net assets at beginning of year	5,207,851	4,614,444	5,603,450	4,668,827	10,811,301	9,283,271
Net assets at end of year	\$ 6,181,666	\$ 5,207,851	\$ 6,294,906	\$ 5,603,450	\$ 12,476,572	\$ 10,811,301

Governmental Activities

Governmental activities net assets increased \$973,815 in 2006.

Security of persons and property, which primarily supports the operations of the police and fire departments, had expenses of \$1,631,421 which accounted for 36.58% of the governmental expenses of the City. These expenses were partially funded by \$63,076 in direct charges to users of the services and \$100,724 in operating grants and contributions. General government expenses totaled \$1,131,868 which was partially funded by \$377,297 in direct charges to users of the services as well as \$296,711 in operating grants and contributions.

CITY OF PATASKALA, OHIO

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

The state and federal government contributed to the City a total of \$1,080,854 in operating grants and contributions and \$364,566 in capital grants and contributions. Developers contributed \$297,414 in capital contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$3,358,978, and amounted to 62.39% of total governmental revenues. These revenues primarily consist of property tax revenue of \$2,695,514. 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 \$434,943.

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 table 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>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 1,131,868	\$ 457,860	\$ 1,217,964	\$ 387,318
Security of persons and property	1,613,421	1,449,621	1,411,576	1,229,752
Public health and welfare	57,000	57,000	47,693	47,693
Transportation	1,004,060	(43,925)	774,839	79,133
Community environment	329,149	328,403	386,665	386,337
Leisure time activity	206,123	67,439	136,392	(25,635)
Interest and fiscal charges	<u>68,765</u>	<u>68,765</u>	<u>14,963</u>	<u>14,963</u>
Total Expenses	<u>\$ 4,410,386</u>	<u>\$ 2,385,163</u>	<u>\$ 3,990,092</u>	<u>\$ 2,119,561</u>

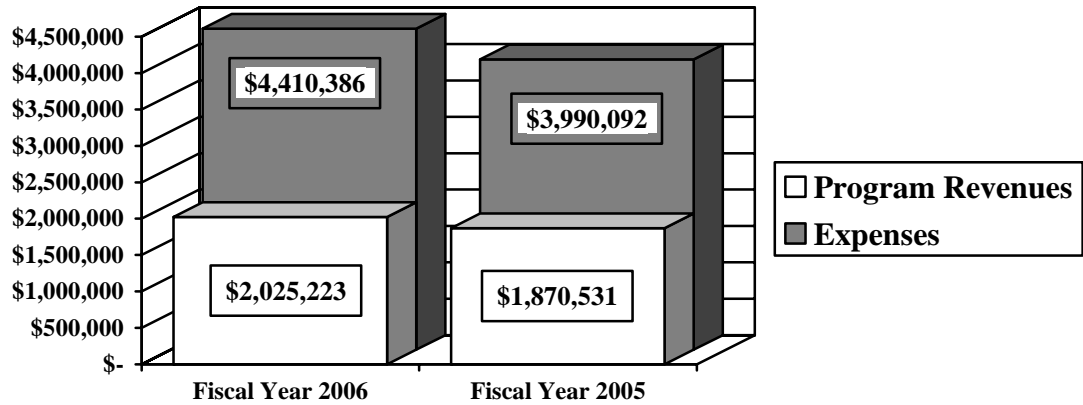
The dependence upon general revenues for governmental activities is apparent, with 54.08% of expenses supported through taxes and other general revenues.

CITY OF PATASKALA, OHIO

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

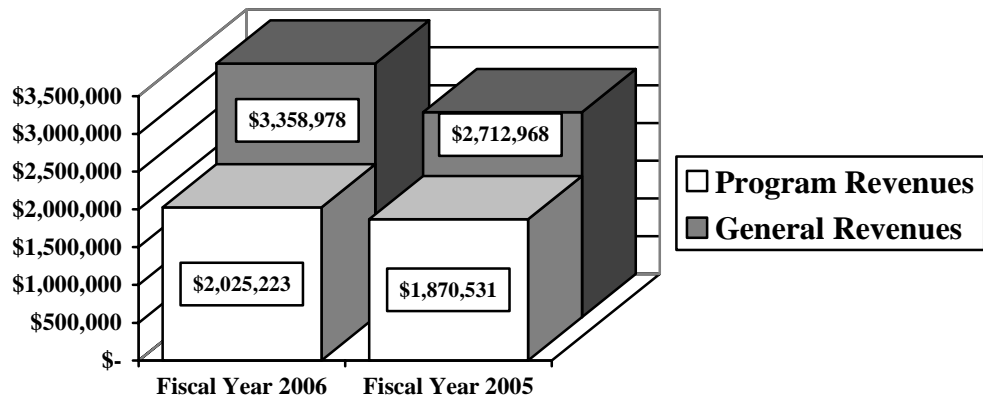
The graph below shows governmental-activities program revenues and total expenses for fiscal year 2006 and 2005:

Governmental Activities - Program Revenues vs. Total Expenses



The graph below shows governmental-activities general and program revenues for fiscal year 2006 and 2005:

Governmental Activities - General and Program Revenues



Business-type Activities

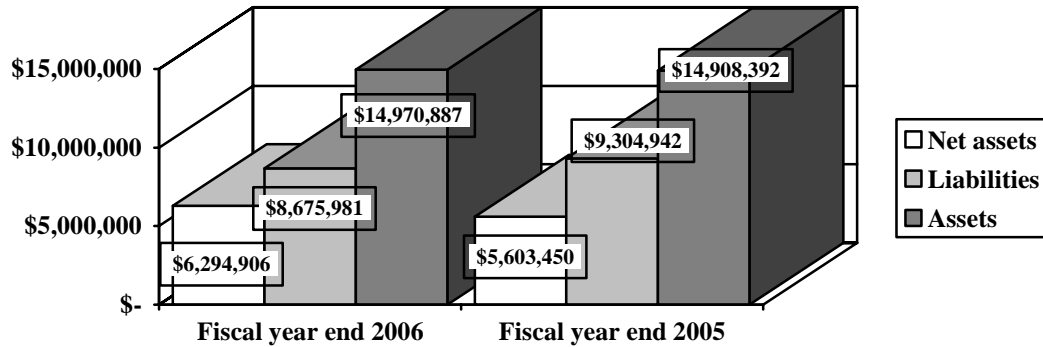
Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$2,174,939, general revenues of \$288,843, and expenses of \$1,772,326 for 2006.

CITY OF PATASKALA, OHIO

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

The graph below shows the business-type activities assets, liabilities and net assets at December 31, 2006 and 2005.

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 20-21) reported a combined fund balance of \$1,010,951 which is \$558,605 higher than last year's total of \$452,346. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/06</u>	Fund Balances <u>12/31/05</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 815,413	\$ 687,296	\$ 128,117
Street	1,011,699	509,880	501,819
Police Levy	75,743	70,581	5,162
Municipal building purchase	(1,265,520)	(1,121,089)	(144,431)
Other nonmajor governmental funds	<u>373,616</u>	<u>305,678</u>	<u>67,938</u>
Total	<u>\$ 1,010,951</u>	<u>\$ 452,346</u>	<u>\$ 558,605</u>

CITY OF PATASKALA, OHIO

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

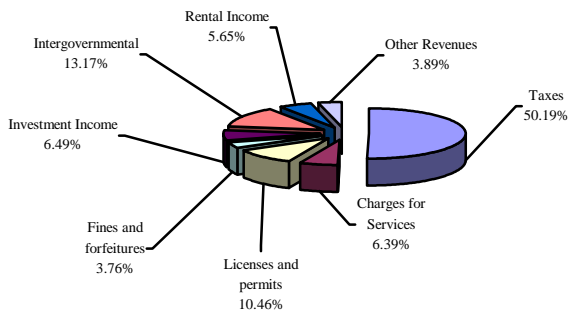
General Fund

The City's general fund balance increased \$128,117, primarily due to increasing revenues and a slight decrease in expenditures. The table that follows assists in illustrating the revenues of the general fund.

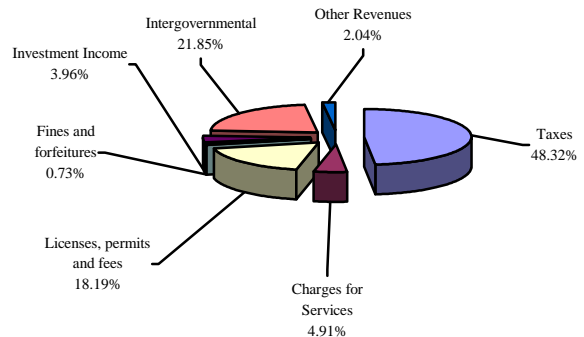
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 841,569	\$ 718,300	17.16% %
Charges for services	107,213	73,022	46.82% %
Licenses and permits	175,337	270,443	(35.17) %
Fines and forfeitures	63,076	10,921	477.57% %
Intergovernmental	220,829	324,858	(32.02) %
Investment income	108,891	58,935	84.76% %
Rental income	94,747	-	100.00% %
Other	<u>65,255</u>	<u>30,332</u>	115.14% %
Total	<u>\$ 1,676,917</u>	<u>\$ 1,486,811</u>	12.79% %

Tax revenue represents 50.19% of all general fund revenue. Taxes increased 17.16% over 2005 revenues – the County reassessed values in 2005 which is the primary reason for the increase in tax revenues received in 2006. Intergovernmental revenues decreased \$104,029 or 32.02% during 2006 which is due to a grant received in 2005 that was not received in 2006. The increase in interest income was due to the increase in interest rates by the Federal Reserve. The increase in fines and forfeitures was due to an increase in fines from the Mayor's Court. The graphs below show a breakdown of the general fund's revenues for December 31, 2006 and 2005:

Revenues - Fiscal Year 2006



Revenues - Fiscal Year 2005



CITY OF PATASKALA, OHIO

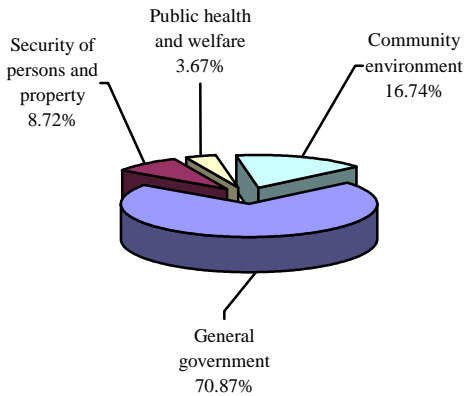
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

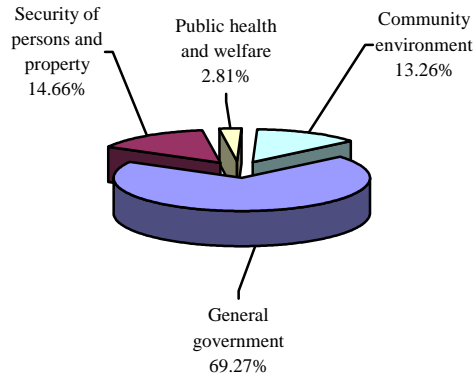
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,097,581	\$ 1,177,316	(6.77) %
Security of persons and property	134,977	249,087	(45.81) %
Public health and welfare	57,000	47,693	19.51 %
Community environment	<u>259,242</u>	<u>225,413</u>	15.01 %
 Total	 <u>\$ 1,548,800</u>	 <u>\$ 1,699,509</u>	 (8.87) %

All expenditures increased comparably similar during 2006. The largest expenditure line item, general government, decreased slightly, which is primarily attributed to wage and benefit decreases and overall cost decreases in purchased goods and services. The graphs below show the general fund's expenditures for December 31, 2006 and 2005

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Street Fund

The Street fund had revenues of \$1,255,163 in 2006, which is an increase of \$61,242 from 2005 revenues. The expenditures in the Street fund totaled \$753,344 in 2006, which decreased \$342,778 from 2005. The net increase in fund balance was \$501,819, resulting in an ending fund balance of \$1,011,699.

Police Levy Fund

The Police Levy fund had revenues of \$1,469,917 in 2006, which is an increase of \$269,132 from 2005 revenues. The expenditures in the Police Levy fund totaled \$1,464,755 in 2006, which increased \$250,605 from 2005. The net increase in fund balance was \$5,162, resulting in an ending fund balance of \$75,743.

CITY OF PATASKALA, OHIO

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

Municipal Building Purchase Fund

The Municipal Building Purchase fund, a new fund in 2005, had no revenues in 2006. The expenditures in the Municipal Building Purchase fund totaled \$144,431 causing a decrease in fund balance of \$144,431 with an ending fund balance deficit of \$1,265,520. The deficit fund balance is a result of reporting a \$1,325,000 note payable as a fund liability of this fund.

Budgeting Highlights

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

Budgetary information is presented for the general fund, Street fund and Police Levy fund. In the general fund, actual revenues of \$1,757,951 were higher than final budgeted revenues by \$209,193 and higher than the original budgeted revenues by \$301,167. Actual expenditures came in \$598,194 lower than the final budgeted amounts and \$683,194 lower than the original budgeted amounts.

Actual revenues for the Street fund were higher than final budgeted revenues by \$104,519 while actual expenditures were \$771,549 lower than final budgeted expenditures and \$752,334 lower than original budgeted expenditures.

Actual revenues for the Police Levy fund were higher than final budgeted revenues by \$48,079 while actual expenditures were \$124,394 lower than final budgeted expenditures and \$51,504 lower than original budgeted expenditures. There were no significant variances between the original and final budgeted revenue amounts for either of the two funds.

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 was 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 2006, the City had \$14,197,611, net of accumulated depreciation, invested in land, construction in progress, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. Of this total, \$4,653,377 was reported in governmental activities and \$9,544,234 was reported in business-type activities.

CITY OF PATASKALA, OHIO

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

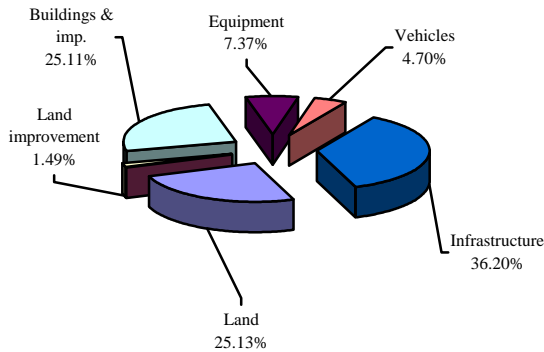
The following table shows fiscal 2006 balances compared to 2005:

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

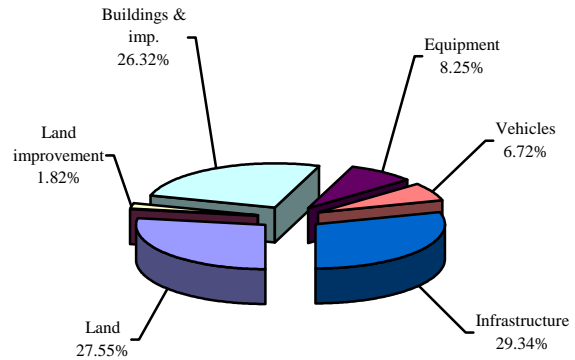
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,169,440	\$1,169,440	\$ 654,893	\$ 654,893	\$ 1,824,333	\$ 1,824,333
Construction-in-progress	-	-	4,237,701	547,588	4,237,701	547,588
Land improvements	69,015	77,211	5,305	7,427	74,320	84,638
Buildings and improvements	1,168,650	1,116,940	1,164,662	1,232,826	2,333,312	2,349,766
Equipment	342,970	349,991	633,305	700,472	976,275	1,050,463
Vehicles	218,772	285,353	-	-	218,772	285,353
Infrastructure	1,684,530	1,245,316	2,848,368	2,738,047	4,532,898	3,983,363
Totals	\$4,653,377	\$4,244,251	\$ 9,544,234	\$ 5,881,253	\$14,197,611	\$ 10,125,504

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

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005



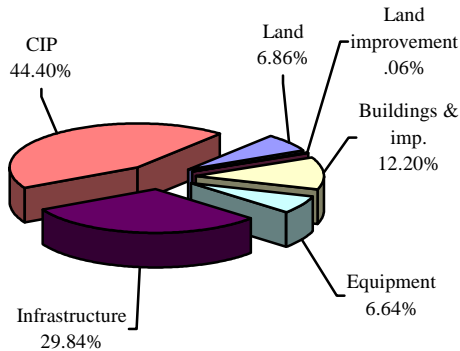
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant.

CITY OF PATASKALA, OHIO

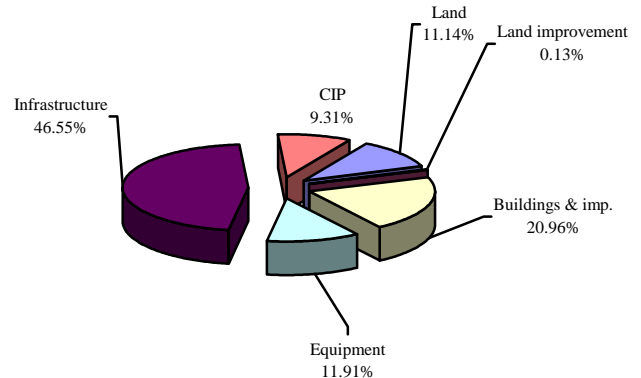
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



The City's 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 29.84% of the City's total business-type capital assets.

Debt Administration

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

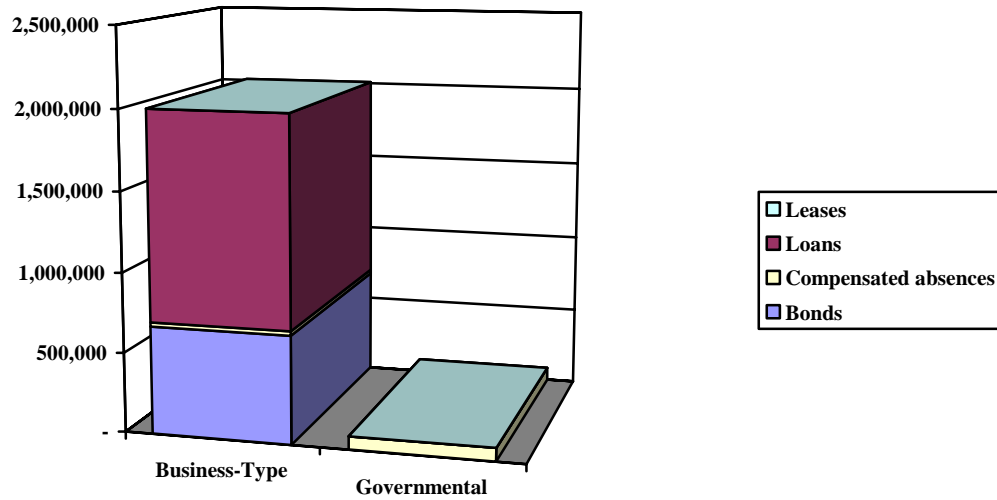
	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Compensated absences	82,552	73,383
Capital lease obligation payable	<u>-</u>	<u>73,697</u>
Total long-term obligations	<u>\$ 82,552</u>	<u>\$ 147,080</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
General obligation bonds	<u>\$ 675,000</u>	<u>\$ 710,000</u>
Total bonds	<u>675,000</u>	<u>710,000</u>
OWDA Loans	1,305,598	1,559,780
Compensated absences	<u>26,250</u>	<u>27,425</u>
Total long-term obligations	<u>\$ 2,006,848</u>	<u>\$ 2,297,205</u>

CITY OF PATASKALA, OHIO

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

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

Long-term obligations December 31, 2006



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. Jason Carr, 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, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,460,210	\$ 5,185,963	\$ 7,646,173
Cash in segregated accounts	-	4,067	4,067
Receivables (net of allowances for uncollectibles):			
Real and other taxes	2,325,385	-	2,325,385
Accounts	60,350	222,499	282,849
Due from other governments	634,088	-	634,088
Prepayments	26,933	8,410	35,343
Materials and supplies inventory.	44,340	5,714	50,054
Restricted assets:			
Cash with fiscal and escrow agent	14,741	-	14,741
Capital assets:			
Land and construction in progress.	1,169,440	4,892,594	6,062,034
Depreciable capital assets, net	<u>3,483,937</u>	<u>4,651,640</u>	<u>8,135,577</u>
Total capital assets, net	<u>4,653,377</u>	<u>9,544,234</u>	<u>14,197,611</u>
 Total assets.	 <u>10,219,424</u>	 <u>14,970,887</u>	 <u>25,190,311</u>
Liabilities:			
Accounts payable.	24,598	27,010	51,608
Contracts payable.	-	371,104	371,104
Accrued wages and benefits	125,289	30,012	155,301
Deferred revenue.	2,199,305	-	2,199,305
Accrued interest payable.	2,050	81,102	83,152
Pension obligation payable	73,964	14,905	88,869
Notes payable	1,530,000	6,145,000	7,675,000
Long-term liabilities:			
Due within one year	58,285	328,936	387,221
Due in more than one year	<u>24,267</u>	<u>1,677,912</u>	<u>1,702,179</u>
 Total liabilities	 <u>4,037,758</u>	 <u>8,675,981</u>	 <u>12,713,739</u>
Net assets:			
Invested in capital assets, net of related debt	3,123,377	3,325,935	6,449,312
Restricted for:			
Debt service	30,067	-	30,067
Street construction, maintenance and repairs.	1,218,590	-	1,218,590
Parks and recreation	108,498	-	108,498
Police and fire	277,968	-	277,968
Other purposes	362,393	-	362,393
Unrestricted.	<u>1,060,773</u>	<u>2,968,971</u>	<u>4,029,744</u>
 Total net assets	 <u>\$ 6,181,666</u>	 <u>\$ 6,294,906</u>	 <u>\$ 12,476,572</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,131,868	\$ 377,297	\$ 296,711	\$ -
Security of persons and property	1,613,421	63,076	100,724	-
Public health and welfare	57,000	-	-	-
Transportation	1,004,060	-	683,419	364,566
Community environment	329,149	746	-	-
Leisure time activity	206,123	138,684	-	-
Interest and fiscal charges	68,765	-	-	-
Total governmental activities	4,410,386	579,803	1,080,854	364,566
Business-type Activities:				
Water	964,444	953,613	-	123,070
Sewer	807,882	923,912	-	174,344
Total business-type activities	1,772,326	1,877,525	-	297,414
Total primary government.	\$ 6,182,712	\$ 2,457,328	\$ 1,080,854	\$ 661,980

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
\$ (457,860)	\$ -	\$ (457,860)
(1,449,621)	-	(1,449,621)
(57,000)	-	(57,000)
43,925	-	43,925
(328,403)	-	(328,403)
(67,439)	-	(67,439)
(68,765)	-	(68,765)
<u>(2,385,163)</u>	<u>-</u>	<u>(2,385,163)</u>
-	112,239	112,239
-	290,374	290,374
-	402,613	402,613
<u>(2,385,163)</u>	<u>402,613</u>	<u>(1,982,550)</u>
853,878	-	853,878
525,244	-	525,244
1,316,392	-	1,316,392
434,943	-	434,943
110,276	271,525	381,801
118,245	17,318	135,563
<u>3,358,978</u>	<u>288,843</u>	<u>3,647,821</u>
973,815	691,456	1,665,271
<u>5,207,851</u>	<u>5,603,450</u>	<u>10,811,301</u>
<u>\$ 6,181,666</u>	<u>\$ 6,294,906</u>	<u>\$ 12,476,572</u>

CITY OF PATASKALA, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Street</u>	<u>Police Levy</u>	<u>Municipal Building Purchase</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 827,143	\$ 861,244	\$ 172,425	\$ 59,480
Receivables (net of allowance for uncollectibles):				
Real and other taxes	888,884	-	1,436,501	-
Accounts	59,130	120	237	-
Due from other governments	149,555	299,330	143,762	-
Prepayments.	7,569	5,757	13,607	-
Materials and supplies inventory	-	44,340	-	-
Restricted assets:				
Cash with fiscal and escrow agents	-	-	-	-
Total assets	<u>\$ 1,932,281</u>	<u>\$ 1,210,791</u>	<u>\$ 1,766,532</u>	<u>\$ 59,480</u>
Liabilities:				
Accounts payable	\$ 6,884	\$ 15,802	\$ 1,283	\$ -
Accrued wages and benefits	33,620	22,472	66,785	-
Deferred revenue	1,057,694	151,038	1,578,356	-
Accrued interest payable	-	-	-	-
Pension obligation payable	18,670	9,780	44,365	-
Notes payable	-	-	-	1,325,000
Total liabilities	<u>1,116,868</u>	<u>199,092</u>	<u>1,690,789</u>	<u>1,325,000</u>
Fund Balances:				
Reserved for prepayments	7,569	5,757	13,607	-
Reserved for materials and supplies inventory	-	44,340	-	-
Reserved for restricted assets	-	-	-	-
Reserved for debt service.	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund.	807,844	-	-	-
Special revenue funds.	-	961,602	62,136	-
Capital projects funds.	-	-	-	(1,265,520)
Total fund balances	<u>815,413</u>	<u>1,011,699</u>	<u>75,743</u>	<u>(1,265,520)</u>
Total liabilities and fund balances.	<u>\$ 1,932,281</u>	<u>\$ 1,210,791</u>	<u>\$ 1,766,532</u>	<u>\$ 59,480</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 539,918	\$ 2,460,210
-	2,325,385
863	60,350
41,441	634,088
-	26,933
-	44,340
14,741	14,741
\$ 596,963	\$ 5,566,047
\$ 629	\$ 24,598
2,412	125,289
12,107	2,799,195
2,050	2,050
1,149	73,964
205,000	1,530,000
223,347	4,555,096
-	26,933
-	44,340
14,741	14,741
30,067	30,067
-	807,844
535,858	1,559,596
(207,050)	(1,472,570)
373,616	1,010,951
\$ 596,963	\$ 5,566,047

CITY OF PATASKALA, OHIO

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Total governmental fund balances		\$	1,010,951
<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.			4,653,377
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes	\$	126,080	
Intergovernmental revenues		420,122	
Other revenue		<u>53,688</u>	
Total			599,890
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			<u>(82,552)</u>
Net assets of governmental activities		\$	<u><u>6,181,666</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF PATASKALA, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/(DEFICIT)
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Street</u>	<u>Police Levy</u>	<u>Municipal Building Purchase</u>
Revenues:				
Property and other taxes	\$ 841,569	\$ 549,540	\$ 1,297,216	\$ -
Charges for services	107,213	-	-	-
Licenses and permits	175,337	-	-	-
Fines and forfeitures	63,076	-	-	-
Intergovernmental	220,829	697,495	166,094	-
Investment income	108,891	1,170	-	-
Rental income	94,747	-	-	-
Other	65,255	6,958	6,607	-
Total revenues	<u>1,676,917</u>	<u>1,255,163</u>	<u>1,469,917</u>	<u>-</u>
Expenditures:				
Current:				
General government	1,097,581	-	-	87,613
Security of persons and property	134,977	-	1,464,755	-
Public health and welfare	57,000	-	-	-
Transportation.	-	686,112	-	-
Community environment	259,242	-	-	-
Leisure time activity	-	-	-	-
Capital outlay.	-	-	-	-
Debt service:				
Principal retirement	-	64,153	-	-
Interest and fiscal charges	-	3,079	-	56,818
Total expenditures	<u>1,548,800</u>	<u>753,344</u>	<u>1,464,755</u>	<u>144,431</u>
Excess (deficiency) of revenues over (under) expenditures	<u>128,117</u>	<u>501,819</u>	<u>5,162</u>	<u>(144,431)</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses).	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	128,117	501,819	5,162	(144,431)
Fund balances (deficit) at beginning of year.	<u>687,296</u>	<u>509,880</u>	<u>70,581</u>	<u>(1,121,089)</u>
Fund balances (deficit) at end of year	<u>\$ 815,413</u>	<u>\$ 1,011,699</u>	<u>\$ 75,743</u>	<u>\$ (1,265,520)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,688,325
137,960	245,173
1,470	176,807
-	63,076
576,169	1,660,587
215	110,276
-	94,747
36,976	115,796
<u>752,790</u>	<u>5,154,787</u>
-	1,185,194
4,420	1,604,152
-	57,000
7,103	693,215
1,804	261,046
116,516	116,516
536,597	536,597
9,544	73,697
8,868	68,765
<u>684,852</u>	<u>4,596,182</u>
<u>67,938</u>	<u>558,605</u>
15,480	15,480
<u>(15,480)</u>	<u>(15,480)</u>
-	-
67,938	558,605
305,678	452,346
<u>\$ 373,616</u>	<u>\$ 1,010,951</u>

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, 2006

Net change in fund balances - total governmental funds \$ 558,605

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. In addition, capital contributions from developers are not reported in governmental funds; however, the contributions increase assets on the statement of net assets. Capital contributions and the extent by which capital outlays exceeded depreciation expense in the current period follows:

Capital outlays	\$	360,656	
Current year depreciation		(239,388)	
Capital contributions from developers		287,858	
			409,126

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

Taxes		7,189	
Intergovernmental		(68,082)	
Licenses and permits		2,449	
			(58,444)

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. 73,697

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 (9,169)

Change in net assets of governmental activities \$ 973,815

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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other taxes	\$ 770,957	\$ 819,632	\$ 930,340	\$ 110,708
Charges for services	88,846	94,455	107,213	12,758
Licenses and permits.	154,073	160,565	175,332	14,767
Fines and forfeitures.	54,058	57,471	65,234	7,763
Intergovernmental	171,180	181,077	203,588	22,511
Investment income	90,236	95,933	108,891	12,958
Rental income	78,515	83,472	94,747	11,275
Other	48,919	56,153	72,606	16,453
Total revenues.	<u>1,456,784</u>	<u>1,548,758</u>	<u>1,757,951</u>	<u>209,193</u>
Expenditures:				
Current:				
General government	1,647,399	1,585,722	1,151,662	434,060
Security of persons and property	195,114	187,809	136,400	51,409
Public health and welfare.	83,493	80,367	58,368	21,999
Community environment	344,337	331,445	240,719	90,726
Total expenditures	<u>2,270,343</u>	<u>2,185,343</u>	<u>1,587,149</u>	<u>598,194</u>
Net change in fund balance	(813,559)	(636,585)	170,802	807,387
Fund balance at beginning of year	<u>656,341</u>	<u>656,341</u>	<u>656,341</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ (157,218)</u>	<u>\$ 19,756</u>	<u>\$ 827,143</u>	<u>\$ 807,387</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, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other taxes	\$ 503,727	\$ 503,727	\$ 551,170	47,443
Intergovernmental	596,605	596,605	650,870	54,265
Investment income	1,068	1,068	1,169	101
Other	8,338	8,338	11,048	2,710
Total revenues.	<u>1,109,738</u>	<u>1,109,738</u>	<u>1,214,257</u>	<u>104,519</u>
Expenditures:				
Current:				
Transportation	<u>1,517,688</u>	<u>1,536,903</u>	<u>765,354</u>	<u>771,549</u>
Total expenditures	<u>1,517,688</u>	<u>1,536,903</u>	<u>765,354</u>	<u>771,549</u>
Net change in fund balance	(407,950)	(427,165)	448,903	876,068
Fund balance at beginning of year	<u>412,341</u>	<u>412,341</u>	<u>412,341</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 4,391</u>	<u>\$ (14,824)</u>	<u>\$ 861,244</u>	<u>\$ 876,068</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, 2006

	<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	\$ 1,395,147	\$ 1,258,685	\$ 1,300,475	\$ 41,790
Intergovernmental	22,449	158,911	164,187	5,276
Other	30,499	30,499	31,512	1,013
Total revenues.	<u>1,448,095</u>	<u>1,448,095</u>	<u>1,496,174</u>	<u>48,079</u>
Expenditures:				
Current:				
Security of persons and property	<u>1,517,334</u>	<u>1,590,176</u>	<u>1,465,830</u>	<u>124,346</u>
Total expenditures	<u>1,517,334</u>	<u>1,590,176</u>	<u>1,465,830</u>	<u>124,346</u>
Net change in fund balance	(69,239)	(142,081)	30,344	172,425
Fund balance at beginning of year	<u>142,081</u>	<u>142,081</u>	<u>142,081</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 72,842</u>	<u>\$ -</u>	<u>\$ 172,425</u>	<u>\$ 172,425</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	<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	\$ 2,918,016	\$ 2,267,947	\$ 5,185,963
Cash in segregated accounts	-	4,067	4,067
Receivables (net of allowance for uncollectibles):			
Accounts.	103,785	118,714	222,499
Prepayments.	4,188	4,222	8,410
Materials and supplies inventory	4,464	1,250	5,714
Total current assets	<u>3,030,453</u>	<u>2,396,200</u>	<u>5,426,653</u>
Noncurrent assets:			
Capital assets:			
Land and construction in progress	4,568,453	324,141	4,892,594
Depreciable capital assets, net	2,172,718	2,478,922	4,651,640
Total capital assets, net	<u>6,741,171</u>	<u>2,803,063</u>	<u>9,544,234</u>
Total noncurrent assets	<u>6,741,171</u>	<u>2,803,063</u>	<u>9,544,234</u>
Total assets.	<u>9,771,624</u>	<u>5,199,263</u>	<u>14,970,887</u>
Liabilities:			
Current liabilities:			
Accounts payable.	24,304	2,706	27,010
Contracts payable.	371,104	-	371,104
Accrued wages and benefits	15,011	15,001	30,012
Compensated absences	7,932	11,017	18,949
Pension obligation payable.	7,443	7,462	14,905
Accrued interest payable.	77,669	3,433	81,102
General obligation bonds - current.	-	35,000	35,000
OWDA loans - current	91,546	183,441	274,987
Notes payable	6,145,000	-	6,145,000
Total current liabilities	<u>6,740,009</u>	<u>258,060</u>	<u>6,998,069</u>
Long-term liabilities:			
General obligation bonds	-	640,000	640,000
OWDA loans	392,878	637,733	1,030,611
Compensated absences	7,301	-	7,301
Total long-term liabilities	<u>400,179</u>	<u>1,277,733</u>	<u>1,677,912</u>
Total liabilities.	<u>7,140,188</u>	<u>1,535,793</u>	<u>8,675,981</u>
Net assets:			
Invested in capital assets, net of related debt	2,019,046	1,306,889	3,325,935
Unrestricted.	612,390	2,356,581	2,968,971
Total net assets	<u>\$ 2,631,436</u>	<u>\$ 3,663,470</u>	<u>\$ 6,294,906</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, 2006

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 953,613	\$ 923,912	\$ 1,877,525
Other	9,192	8,126	17,318
Total operating revenues	962,805	932,038	1,894,843
Operating expenses:			
Personal services	301,896	289,945	591,841
Contract services	178,451	31,193	209,644
Materials and supplies	90,374	134,612	224,986
Depreciation	174,768	149,778	324,546
Other	-	89,623	89,623
Total operating expenses.	745,489	695,151	1,440,640
Operating income	217,316	236,887	454,203
Nonoperating revenues (expenses):			
Interest revenue.	138,550	132,975	271,525
Interest expense and fiscal charges	(218,955)	(112,731)	(331,686)
Total nonoperating revenues (expenses)	(80,405)	20,244	(60,161)
Income before capital contributions.	136,911	257,131	394,042
Capital contributions	123,070	174,344	297,414
Changes in net assets	259,981	431,475	691,456
Net assets at beginning of year	2,371,455	3,231,995	5,603,450
Net assets at end of year.	\$ 2,631,436	\$ 3,663,470	\$ 6,294,906

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF PATASKALA, OHIO

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

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from charges for services	\$ 957,183	\$ 931,026	\$ 1,888,209
Cash received from other operations	9,192	8,126	17,318
Cash payments for personal services	(300,666)	(297,719)	(598,385)
Cash payments for contract services.	(176,078)	(29,365)	(205,443)
Cash payments for materials and supplies.	(97,747)	(134,812)	(232,559)
Cash payments for other expenses	-	(114,615)	(114,615)
Net cash provided by operating activities.	<u>391,884</u>	<u>362,641</u>	<u>754,525</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets.	(3,865,997)	-	(3,865,997)
Principal retirement on bonds.	-	(35,000)	(35,000)
Principal retirement on ODWA loans.	(83,619)	(170,563)	(254,182)
Principal retirement on notes.	(6,245,000)	-	(6,245,000)
Interest and fiscal charges.	(249,288)	(112,906)	(362,194)
Note issuance	6,145,000	-	6,145,000
Net cash used in capital and related financing activities	<u>(4,298,904)</u>	<u>(318,469)</u>	<u>(4,617,373)</u>
Cash flows from investing activities:			
Interest received.	138,550	132,975	271,525
Net cash provided by investing activities.	<u>138,550</u>	<u>132,975</u>	<u>271,525</u>
Net increase (decrease) in cash and cash equivalents.	(3,768,470)	177,147	(3,591,323)
Cash and cash equivalents			
at beginning of year	6,686,486	2,094,867	8,781,353
Cash and cash equivalents at end of year.	<u>\$ 2,918,016</u>	<u>\$ 2,272,014</u>	<u>\$ 5,190,030</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 217,316	\$ 236,887	\$ 454,203
Adjustments:			
Depreciation	174,768	149,778	324,546
Changes in assets and liabilities:			
Decrease in accounts receivable	3,570	7,114	10,684
(Increase) in materials and supplies inventory	(2,139)	(200)	(2,339)
Decrease in prepayments	409	409	818
(Decrease) in accounts payable	(3,582)	(23,885)	(27,467)
Increase (decrease) in accrued wages and benefits	2,352	(5,920)	(3,568)
(Decrease) in compensated absences payable	(725)	(450)	(1,175)
(Decrease) in pension obligation payable	(85)	(1,092)	(1,177)
Net cash provided by operating activities	<u>\$ 391,884</u>	<u>\$ 362,641</u>	<u>\$ 754,525</u>

Noncash Transactions:

At December 31, 2006 and December 31, 2005 the Water fund purchased \$371,704 and \$547,588 in capital assets, respectively, on account.

During fiscal 2006, the Water and Sewer funds received \$123,070 and \$174,344, respectively, in capital contributions from developers.

CITY OF PATASKALA, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

	<u>Agency</u>
Assets:	
Cash in segregated accounts	\$ 6,984
Total assets.	<u>\$ 6,984</u>
Liabilities:	
Undistributed monies	\$ 6,984
Total liabilities	<u>\$ 6,984</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF PATASKALA, OHIO

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

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 BFS 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. 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 2006 for the operation of the West Licking Joint Fire District.

CITY OF PATASKALA, OHIO

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

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 2006 for the operation of the Sewer 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, 2006

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, 2006

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, 2006

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 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. 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, 2006

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 2006.

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 in segregated accounts and cash held by a fiscal agent, are pooled and invested in investments maturing within five 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 2006, 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 segregated bank accounts for Mayor's Court monies and Sewer fund deposits separate from the City's central bank account. These interest bearing depository accounts are presented on the financial statements as "Cash in Segregated Accounts" since they are 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 2006 amounted to \$108,891, which included \$93,588 assigned from other funds of the City.

CITY OF PATASKALA, OHIO

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

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 funds 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. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
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, 2006**

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, 2006, 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, 2006**

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.

Q. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. 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, 2006**

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 are the primary activity of the fund.

S. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provision or enabling legislation.

Restricted assets represent certain resources which are segregated from other resources of the City. These assets are generally held in separate accounts of the City or by a trustee. Restricted assets represent permissive tax monies held by Licking County.

T. 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 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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

CITY OF PATASKALA, OHIO

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at December 31, 2006, included the following individual fund deficits:

<u>Major</u>	<u>Deficit</u>
Municipal Building Purchase	\$ 1,265,520
 <u>Nonmajor</u>	
Courter Bridge Improvement	207,050

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 balances in the Municipal Building Purchase fund and Courter Bridge Improvement fund resulted from the reporting of notes payable as fund liabilities (see Note 12).

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

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;

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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.

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.

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.

A. Cash with Fiscal and Escrow Agent

At year-end, the City had \$14,741 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, 2006. This amount is not included in the City's depository balance detailed in Note 4.C.

B. Cash in Segregated Accounts

At year-end, the City had \$6,984 deposited with a financial institution for monies related to the Mayor's Court which are reported as an agency fund and \$4,067 deposited with a financial institution for monies related to the Sewer fund. These amounts were covered by Federal Deposit Insurance Corporation and are not included in the City's depository balance detailed in Note 4.C.

C. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$5,192,073. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$5,006,564 of the City's bank balance of \$5,276,806 was exposed to custodial risk as discussed below, while \$270,242 was covered by Federal Deposit Insurance Corporation.

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

D. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreements	\$ 2,454,100	\$ 2,454,100
	<u>\$ 2,454,100</u>	<u>\$ 2,454,100</u>

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to a repurchase agreement must exceed the principal value of securities subject to a repurchase agreement by 2%.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreements	\$ 2,454,100	100.00%
	<u>\$ 2,454,100</u>	<u>100.00%</u>

CITY OF PATASKALA, OHIO

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 5,192,073
Investments	2,454,100
Cash with fiscal and escrow agent	14,741
Cash in segregated accounts	<u>11,051</u>
Total	<u>\$ 7,671,965</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,474,951
Business type activities	5,190,030
Agency fund	<u>6,984</u>
Total	<u>\$ 7,671,965</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2006, consisted of the following:

<u>Transfer To</u>	<u>Transfer From</u>
Nonmajor	Nonmajor
<u>Governmental Funds</u>	<u>Governmental</u>
Courter Bridge Improvement	\$ 15,480

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provide additional resources for current operations or debt service; reclassification of prior year distributed monies, to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed.

Transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in May 2005.

CITY OF PATASKALA, OHIO

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

NOTE 6 - PROPERTY TAXES – (Continued)

Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

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

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

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

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, 2006 was \$10.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 302,222,010
Public utility tangible personal property	7,530,440
Tangible personal property	<u>5,235,890</u>
Total assessed valuation	<u>\$ 314,988,340</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first sixty days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

CITY OF PATASKALA, OHIO

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, 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, 2006, 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	\$ 2,325,385
Accounts	60,350
Due from other governments	634,088

Business-type Activities:

Accounts	222,499
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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, 2006

NOTE 8 - CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,169,440	\$ -	\$ -	\$ 1,169,440
Total capital assets, not being depreciated	<u>1,169,440</u>	<u>-</u>	<u>-</u>	<u>1,169,440</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	142,095	-	-	142,095
Buildings and improvements	1,339,394	87,613	-	1,427,007
Equipment	711,757	35,550	-	747,307
Vehicles	1,431,348	-	-	1,431,348
Infrastructure	<u>1,327,723</u>	<u>525,351</u>	<u>-</u>	<u>1,853,074</u>
Total capital assets, being depreciated	<u>4,952,317</u>	<u>648,514</u>	<u>-</u>	<u>5,600,831</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(64,884)	(8,196)	-	(73,080)
Buildings and improvements	(222,454)	(35,903)	-	(258,357)
Equipment	(361,766)	(42,571)	-	(404,337)
Vehicles	(1,145,995)	(66,581)	-	(1,212,576)
Infrastructure	<u>(82,407)</u>	<u>(86,137)</u>	<u>-</u>	<u>(168,544)</u>
Total accumulated depreciation	<u>(1,877,506)</u>	<u>(239,388)</u>	<u>-</u>	<u>(2,116,894)</u>
Total capital assets, being depreciated, net	<u>3,074,811</u>	<u>409,126</u>	<u>-</u>	<u>3,483,937</u>
Governmental activities capital assets, net	<u>\$ 4,244,251</u>	<u>\$ 409,126</u>	<u>\$ -</u>	<u>\$ 4,653,377</u>

CITY OF PATASKALA, OHIO

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

NOTE 8 - CAPITAL ASSETS - (Continued)

	Balance			Balance
<u>Business-type Activities:</u>	<u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 654,893	\$ -	\$ -	\$ 654,893
Construction in progress	<u>547,588</u>	<u>3,690,113</u>	<u>-</u>	<u>4,237,701</u>
Total capital assets, not being depreciated	<u>1,202,481</u>	<u>3,690,113</u>	<u>-</u>	<u>4,892,594</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>5,635,196</u>	<u>297,414</u>	<u>-</u>	<u>5,932,610</u>
Total capital assets, being depreciated	<u>9,308,971</u>	<u>297,414</u>	<u>-</u>	<u>9,606,385</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(98,454)	(2,122)	-	(100,576)
Buildings and improvements	(991,817)	(68,164)	-	(1,059,981)
Equipment	(642,779)	(67,167)	-	(709,946)
Infrastructure	<u>(2,897,149)</u>	<u>(187,093)</u>	<u>-</u>	<u>(3,084,242)</u>
Total accumulated depreciation	<u>(4,630,199)</u>	<u>(324,546)</u>	<u>-</u>	<u>(4,954,745)</u>
Total capital assets, being depreciated, net	<u>4,678,772</u>	<u>(27,132)</u>	<u>-</u>	<u>4,651,640</u>
Business-type activities capital assets, net	<u>\$ 5,881,253</u>	<u>\$ 3,662,981</u>	<u>\$ -</u>	<u>\$ 9,544,234</u>

Depreciation expense was charged to functions/programs (governmental activities) and fund's (business-type activities) of the City as follows:

Governmental activities:

General government	\$ 32,504
Security of persons and property	7,805
Leisure time activity	26,220
Transportation	104,343
Community environment	<u>68,516</u>
Total depreciation expense - governmental activities	<u>\$ 239,388</u>

Business-type activities:

Water	\$ 174,768
Sewer	<u>149,778</u>
Total depreciation expense - business type activities	<u>\$ 324,546</u>

CITY OF PATASKALA, OHIO

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

NOTE 9 - 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, 2006, the liability for compensated absences in governmental activities was \$82,552, and \$26,250 was the liability for compensated absences reported in the business-type activities. The total liability for the City's compensated absences reported on the statement of net assets was \$108,802 with \$77,234 being due within one year.

NOTE 10 - 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. 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.

Capital assets consisting of street vehicles have been capitalized in the amount of \$336,243. This amount represents the present value of minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$207,750, leaving a current book value of \$128,493. A corresponding liability was recorded in the government-wide financial statements. Principal payments made in the 2006 fiscal year totaled \$64,153 paid by the street fund and \$9,544 paid by a nonmajor governmental fund. These principal payments represent the final lease payments on the capital lease obligations. There are no remaining capital lease obligations at December 31, 2006.

NOTE 11 - LONG-TERM OBLIGATIONS

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

	Balance			Balance	Due in
Governmental Activities:	<u>12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/06</u>	<u>One Year</u>
Capital Lease Obligations	\$ 73,697	\$ -	\$ (73,697)	\$ -	\$ -
Compensated Absences	<u>73,383</u>	<u>69,387</u>	<u>(60,218)</u>	<u>82,552</u>	<u>58,285</u>
Total governmental activities long-term obligations	<u>\$ 147,080</u>	<u>\$ 69,387</u>	<u>\$ (133,915)</u>	<u>\$ 82,552</u>	<u>\$ 58,285</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid. For the City's governmental activities, this is the general fund, Street fund and Police Levy fund.

CITY OF PATASKALA, OHIO

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Capital Lease Obligation: Capital lease payments were made from the Street major governmental fund and State Highway nonmajor governmental fund. See Note 10 for detail on the City's capital lease obligations.

- B.** During the fiscal year 2006, the following changes occurred in the City's business-type long-term obligations:

Business-Type Activities:	Interest Rate	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Amounts Due in One Year
<u>General Obligation Revenue Bonds</u>						
Sewer Bonds	5.50-6.125%	\$ 710,000	\$ -	\$ (35,000)	\$ 675,000	\$ 35,000
Total general obligation revenue bonds	3.0-6.3%	710,000	-	(35,000)	675,000	35,000
<u>OWDA Loans</u>						
Sewer Plant OWDA Loan	7.55%	991,737	-	(170,563)	821,174	183,441
Water System OWDA Loan	10.57%	568,043	-	(83,619)	484,424	91,546
Total OWDA loans		1,559,780	-	(254,182)	1,305,598	274,987
<u>Other Obligations</u>						
Compensated absences		27,425	12,178	(13,353)	26,250	18,949
Total other obligations		27,425	12,178	(13,353)	26,250	18,949
Total business-type activities long-term obligations		\$ 2,297,205	\$ 12,178	\$ (302,535)	\$ 2,006,848	\$ 328,936

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 Ohio Water Development Authority (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, 2006, the City had outstanding borrowings of \$1,305,598. During 2006, the Sewer and Water funds made \$170,563 and \$83,619 principal payments, respectively, on the OWDA loans.

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid. For the City's business-type activities, this is the Water fund and Sewer fund.

CITY OF PATASKALA, OHIO

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The future debt service requirements for business-type activities long-term obligations outstanding as of year-end are as follows:

Year	General Obligation Revenue Bonds			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 35,000	\$ 41,200	\$ 76,200	\$ 274,987	\$ 107,920	\$ 382,907
2008	40,000	39,100	79,100	297,513	85,394	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	45,000	31,850	76,850	62,803	5,931	68,734
2012 - 2016	270,000	113,926	383,926	-	-	-
2017 - 2019	205,000	25,419	230,419	-	-	-
Total	<u>\$ 675,000</u>	<u>\$ 322,495</u>	<u>\$ 997,495</u>	<u>\$ 1,305,598</u>	<u>\$ 294,817</u>	<u>\$ 1,600,415</u>

C. Legal Debt Margin

The City's voted and unvoted legal debt margins were \$31,123,245 and \$15,343,761, respectively, at December 31, 2006.

NOTE 12 - NOTES PAYABLE

During 2006, the City had the following note activity:

Governmental Activities	Interest	Issue	Maturity	Balance	Issued	Retired	Balance
	Rate	Date	Date	12/31/05			12/31/06
Bridge Improvement	4.00%	09/01/05	08/31/06	\$ 212,000	\$ -	\$ (212,000)	\$ -
Bridge Improvement	4.00%	09/01/06	08/29/07	-	205,000	-	205,000
Municipal Building	6.00%	12/29/05	12/29/06	465,000	-	(465,000)	-
Municipal Building	6.35%	12/21/06	12/20/07	-	465,000	-	465,000
Municipal Building	4.50%	12/29/05	12/29/06	860,000	-	(860,000)	-
Municipal Building	4.25%	09/27/06	09/26/07	-	860,000	-	860,000
Total governmental activities notes payable				<u>\$ 1,537,000</u>	<u>\$ 1,530,000</u>	<u>\$ (1,537,000)</u>	<u>\$ 1,530,000</u>

CITY OF PATASKALA, OHIO

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

NOTE 12 - NOTES PAYABLE - (Continued)

<u>Business-type Activities</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 12/31/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/06</u>
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	4,750,000	-	(4,750,000)	-
Water Tower Project	4.50%	02/09/06	02/09/07	-	1,395,000	-	1,395,000
Water Treatment Plant	4.50%	09/01/06	08/29/07	-	4,750,000	-	4,750,000
Total business-type activities notes payable				<u>\$ 6,245,000</u>	<u>\$ 6,145,000</u>	<u>\$ (6,245,000)</u>	<u>\$ 6,145,000</u>

On September 1, 2006, the City issued \$4,955,000 in bond anticipation notes in order to refinance notes that were previously issued on September 1, 2005 for the wastewater treatment plant project and bridge improvements. Of the 2006 issue, \$205,000 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 are recorded in the nonmajor governmental funds and Water fund, respectively. The notes have a 4.00% interest rate and are scheduled to mature on August 29, 2007.

On September 27, 2006 and December 21, 2006, the City issued \$860,000 and \$465,000, respectively, in bond anticipation notes to refinance previous notes issued on December 29, 2005 for purchase of the municipal building. The total proceeds were split between a \$465,000 taxable note carrying a 6.35% interest rate, and an \$860,000 tax-exempt note carrying a 4.25% interest rate. The proceeds and related note liability are recorded in the Municipal Building Purchase fund. The \$465,000 note is scheduled to mature December 20, 2007 and the \$860,000 note is scheduled to mature September 26, 2007.

On February 9, 2006, the City issued \$1,395,000 in bond anticipation notes to refinance previous notes issued on February 23, 2005 to finance the water tower system project. The proceeds and related note liability are recorded in the Water fund. The notes have a 4.50% interest rate and are scheduled to mature on February 9, 2007.

NOTE 13 - 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 Anthem, 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.

CITY OF PATASKALA, OHIO

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

NOTE 13 - RISK MANAGEMENT - (Continued)

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.

NOTE 14 - 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) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's total contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$94,806, \$93,775, and \$80,890, respectively; 58.45% has been contributed for 2006 and 100% has been contributed for 2005 and 2004. The unpaid contribution for 2006 in the amount of \$39,391, is recorded as a liability. The City and its members made contributions to the member-directed plan in the amount of \$58 and \$38, respectively during 2006.

CITY OF PATASKALA, OHIO

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

NOTE 14 - PENSION PLANS - (Continued)

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.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's total contributions to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$160,859, \$139,781, and \$129,138, respectively; 76.02% has been contributed for 2006, and 100% was contributed for 2005 and 2004. The unpaid contribution for 2006 in the amount of \$38,580 has been recorded as a liability.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

CITY OF PATASKALA, OHIO

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

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$31,144. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$46,030 for police and \$14,544 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

CITY OF PATASKALA, OHIO

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

NOTE 16 - 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 Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund, Street fund and Police Levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

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

Net Change in Fund Balance

	General	Street	Police Levy
Budget basis	\$ 170,802	\$ 448,903	\$ 30,344
Net adjustment for revenue accruals	(81,034)	40,906	(26,257)
Net adjustment for expenditure accruals	38,349	12,010	1,075
GAAP basis	\$ 128,117	\$ 501,819	\$ 5,162

NOTE 17 - 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, 2006.

CITY OF PATASKALA, OHIO

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

NOTE 17 - CONTINGENCIES - (Continued)

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 18 - SIGNIFICANT SUBSEQUENT EVENT

The City reissued bond anticipation notes in the Water fund for the water tower project which matured on February 9, 2007, in the amount of \$1,295,000 with a maturity date of November 20, 2007.

NOTE 19 - CONTRACTUAL COMMITMENTS

The City had the following outstanding contractual commitment at December 31, 2006:

<u>Project</u>	<u>Contract Amount</u>	<u>Completed Amount</u>	<u>Outstanding 12/31/06</u>
Waste Water Treatment Plant	\$ 3,944,902	\$ (3,319,008)	\$ 625,894



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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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pataskala, as of and for the year ended December 31, 2006, which collectively comprise the City of Pataskala's basic financial statements and have issued our report thereon dated May 18, 2007.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pataskala's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pataskala's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Pataskala's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Pataskala's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of Council and Mayor
City of Pataskala

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Pataskala'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Pataskala in a separate letter dated May 18, 2007.

This report is intended solely for the information and use of the management and City Council 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.".

Julian & Grube, Inc.
May 18, 2007

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-COP-001	Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.	Yes	N/A
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.	Yes	N/A



Mary Taylor, CPA
Auditor of State

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
JUNE 28, 2007**