

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

**GENERAL PURPOSE
FINANCIAL STATEMENTS
(Audited)**

For the Year Ended
December 31, 2003

CHARLES WILLIAMS, FINANCE DIRECTOR



**Auditor of State
Betty Montgomery**

Members of Council
City of Pataskala

We have reviewed the Independent Auditor's Report of the City of Pataskala, Licking County, prepared by Trimble, Julian & Grube, Inc. for the audit period January 1, 2003 through December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 1, 2004

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**CITY OF PATASKALA, OHIO
LICKING COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

Members of Council and Mayor
City of Pataskala
196 E. Broad St.
Pataskala, Ohio 43062

We have audited the accompanying general purpose financial statements of the City of Pataskala (the “City”), Licking County, Ohio, as of and for the year ended December 31, 2003. These general purpose financial statements are the responsibility of the City of Pataskala’s management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note 2(G), the City did not report its governmental fund land values at historical cost. The land, as presented, is reported at the assessed value as reported by the Licking County Auditor during 2003. The land represents 48.6% or \$2,155,070 of the total general fixed asset account group assets for the year ended December 31, 2003.

In our opinion, except for the effect of valuing land at assessed value, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Pataskala, Licking County, Ohio, as of December 31, 2003 and the results of its operations and the cash flows of its proprietary fund type 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 a report dated May 4, 2004, on our consideration of the City of Pataskala’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Trimble, Julian & Grube, Inc.
May 4, 2004

CITY OF PATASKALA, OHIO

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2003

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Assets and Other Debits</u>				
Assets:				
Equity in pooled cash and cash equivalents	\$ 961,333	\$ 772,605	\$ 30,083	\$ -
Cash in segregated accounts	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes	711,884	1,534,559	-	-
Accounts	2,500	3,987	-	-
Accrued interest	25	-	-	-
Due from other funds	1,811	144	-	-
Due from other governments	136,555	305,034	-	-
Prepayments.	7,768	18,602	-	-
Materials and supplies inventory	-	24,315	-	-
Restricted assets:				
Cash with fiscal and escrow agents	-	13,303	-	-
Property, plant and equipment (net of accumulated depreciation where applicable).	-	-	-	-
Other Debits:				
Amount to be provided for retirement of general long-term obligations	-	-	-	-
Total assets and other debits	<u>\$ 1,821,876</u>	<u>\$ 2,672,549</u>	<u>\$ 30,083</u>	<u>\$ -</u>
<u>Liabilities, equity and other credits</u>				
Liabilities:				
Accounts payable	\$ 6,175	\$ 20,074	\$ -	\$ -
Accrued wages and benefits.	22,702	29,327	-	-
Compensated absences payable.	2,566	11,465	-	-
Pension obligation payable	17,091	43,072	-	-
Deferred revenue	813,720	1,794,472	-	-
Notes payable.	-	-	-	-
Due to other funds	-	-	-	-
Accrued interest payable	-	-	-	-
Deposits held and due to others	-	-	-	-
Capital lease payable	-	-	-	-
Bond anticipation notes payable	-	-	-	240,000
General obligation bonds payable	-	-	-	-
OWDA loans payable.	-	-	-	-
Total liabilities	<u>862,254</u>	<u>1,898,410</u>	<u>-</u>	<u>240,000</u>
Equity and other credits:				
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Unreserved.	-	-	-	-
Fund Balances:				
Reserved for materials and supplies inventory.	-	24,315	-	-
Reserved for prepayments	7,768	18,602	-	-
Unreserved - undesignated.	951,854	731,222	30,083	(240,000)
Total equity and other credits	<u>959,622</u>	<u>774,139</u>	<u>30,083</u>	<u>(240,000)</u>
Total liabilities, equity and other credits	<u>\$ 1,821,876</u>	<u>\$ 2,672,549</u>	<u>\$ 30,083</u>	<u>\$ -</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Agency			
\$ 2,912,319	\$ -	\$ -	\$ -	\$ 4,676,340
-	2,009	-	-	2,009
-	-	-	-	2,246,443
172,278	-	-	-	178,765
-	-	-	-	25
-	-	-	-	1,955
-	-	-	-	441,589
7,333	-	-	-	33,703
4,625	-	-	-	28,940
-	-	-	-	13,303
5,770,604	-	4,428,618	-	10,199,222
-	-	-	386,529	386,529
<u>\$ 8,867,159</u>	<u>\$ 2,009</u>	<u>\$ 4,428,618</u>	<u>\$ 386,529</u>	<u>\$ 18,208,823</u>
\$ 16,715	\$ -	\$ -	\$ -	\$ 42,964
10,790	-	-	-	62,819
23,068	-	-	52,613	89,712
11,865	-	-	-	72,028
-	-	-	-	2,608,192
1,695,000	-	-	-	1,695,000
-	1,955	-	-	1,955
25,094	-	-	-	25,094
-	54	-	-	54
-	-	-	333,916	333,916
-	-	-	-	240,000
770,000	-	-	-	770,000
2,011,969	-	-	-	2,011,969
<u>4,564,501</u>	<u>2,009</u>	<u>-</u>	<u>386,529</u>	<u>7,953,703</u>
-	-	4,428,618	-	4,428,618
4,302,658	-	-	-	4,302,658
-	-	-	-	24,315
-	-	-	-	26,370
-	-	-	-	1,473,159
<u>4,302,658</u>	<u>-</u>	<u>4,428,618</u>	<u>-</u>	<u>10,255,120</u>
<u>\$ 8,867,159</u>	<u>\$ 2,009</u>	<u>\$ 4,428,618</u>	<u>\$ 386,529</u>	<u>\$ 18,208,823</u>

CITY OF PATASKALA, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES/(DEFICIT)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Governmental Fund Types</u>				Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Revenues:					
Property and other taxes	\$ 631,321	\$ 1,395,471	\$ -	\$ -	\$ 2,026,792
Charges for services	140,356	136,070	-	-	276,426
Licenses, permits and fees	219,255	59,205	-	-	278,460
Fines and forfeitures	48,377	5,366	-	-	53,743
Intergovernmental	337,092	857,014	-	298,320	1,492,426
Special assessments	800	-	-	-	800
Investment income	25,200	1,349	-	-	26,549
Refunds	20,753	-	-	-	20,753
Other.	43,405	68,033	-	-	111,438
Total revenues	<u>1,466,559</u>	<u>2,522,508</u>	<u>-</u>	<u>298,320</u>	<u>4,287,387</u>
Expenditures:					
Current operations:					
General government	795,423	-	30	-	795,453
Security of persons and property.	292,322	996,345	-	-	1,288,667
Public health and welfare	29,488	-	-	-	29,488
Transportation	-	973,469	-	-	973,469
Community environment	389,491	458	-	-	389,949
Leisure time activity	-	113,614	-	-	113,614
Capital outlay	-	253,910	-	538,320	792,230
Debt service:					
Principal retirement	-	122,767	-	-	122,767
Interest and fiscal charges	-	18,631	-	-	18,631
Total expenditures	<u>1,506,724</u>	<u>2,479,194</u>	<u>30</u>	<u>538,320</u>	<u>4,524,268</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(40,165)</u>	<u>43,314</u>	<u>(30)</u>	<u>(240,000)</u>	<u>(236,881)</u>
Fund balances, January 1	999,787	741,592	30,113	-	1,771,492
Decrease in reserve for inventory.	-	(10,767)	-	-	(10,767)
Fund balances/(deficit), December 31	<u>\$ 959,622</u>	<u>\$ 774,139</u>	<u>\$ 30,083</u>	<u>\$ (240,000)</u>	<u>\$ 1,523,844</u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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CITY OF PATASKALA, OHIO

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2003

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Property and other taxes	\$ 552,901	\$ 631,321	\$ 78,420	\$ 1,395,471	\$ 1,395,471	\$ -
Charges for services	26,604	140,356	113,752	160,000	136,070	(23,930)
Licenses, permits and fees	196,838	219,255	22,417	21,000	59,205	38,205
Fines and forfeitures.	46,683	53,304	6,621	13,000	6,227	(6,773)
Intergovernmental	317,482	362,512	45,030	813,862	880,251	66,389
Special assessments	-	800	800	100	-	(100)
Investment income	22,483	25,672	3,189	-	1,349	1,349
Refunds.	18,175	20,753	2,578	-	-	-
Other.	33,019	43,204	10,185	39,000	74,619	35,619
Total revenues	1,214,185	1,497,177	282,992	2,442,433	2,553,192	110,759
Expenditures:						
Current:						
General government	1,461,874	799,713	662,161	-	-	-
Security of persons and property.	316,800	304,355	12,445	1,130,128	1,031,956	98,172
Public health and welfare	29,488	29,488	-	-	-	-
Transportation	-	-	-	1,304,166	1,042,227	261,939
Community environment.	535,043	389,040	146,003	8,783	458	8,325
Leisure time activity.	-	-	-	139,162	112,926	26,236
Capital outlay	-	-	-	467,171	253,910	213,261
Total expenditures	2,343,205	1,522,596	820,609	3,049,410	2,441,477	607,933
Excess (deficiency) of revenues over (under) expenditures	(1,129,020)	(25,419)	1,103,601	(606,977)	111,715	718,692
Other financing sources:						
Proceeds of notes	-	-	-	-	-	-
Total other financing sources.	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(1,129,020)	(25,419)	1,103,601	(606,977)	111,715	718,692
Fund balance, January 1	970,336	970,336	-	653,430	653,430	-
Prior year encumbrances appropriated	16,416	16,416	-	-	-	-
Fund balance, December 31	\$ (142,268)	\$ 961,333	\$ 1,103,601	\$ 46,453	\$ 765,145	\$ 718,692

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

Debt Service			Capital Projects			Total (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,948,372	\$ 2,026,792	\$ 78,420
-	-	-	-	-	-	186,604	276,426	89,822
-	-	-	-	-	-	217,838	278,460	60,622
-	-	-	-	-	-	59,683	59,531	(152)
-	-	-	-	219,940	219,940	1,131,344	1,462,703	331,359
4,000	-	(4,000)	-	-	-	4,100	800	(3,300)
-	-	-	-	-	-	22,483	27,021	4,538
-	-	-	-	-	-	18,175	20,753	2,578
-	-	-	-	-	-	72,019	117,823	45,804
4,000	-	(4,000)	-	219,940	219,940	3,660,618	4,270,309	609,691
31,871	30	31,841	-	-	-	1,493,745	799,743	694,002
-	-	-	-	-	-	1,446,928	1,336,311	110,617
-	-	-	-	-	-	29,488	29,488	-
-	-	-	-	-	-	1,304,166	1,042,227	261,939
-	-	-	-	-	-	543,826	389,498	154,328
-	-	-	-	-	-	139,162	112,926	26,236
-	-	-	240,000	459,940	(219,940)	707,171	713,850	(6,679)
31,871	30	31,841	240,000	459,940	(219,940)	5,664,486	4,424,043	1,240,443
(27,871)	(30)	27,841	(240,000)	(240,000)	-	(2,003,868)	(153,734)	1,850,134
-	-	-	-	240,000	240,000	-	240,000	240,000
-	-	-	-	240,000	240,000	-	240,000	240,000
(27,871)	(30)	27,841	(240,000)	-	240,000	(2,003,868)	86,266	2,090,134
30,113	30,113	-	-	-	-	1,653,879	1,653,879	-
-	-	-	-	-	-	16,416	16,416	-
\$ 2,242	\$ 30,083	\$ 27,841	\$ (240,000)	\$ -	\$ 240,000	\$ (333,573)	\$ 1,756,561	\$ 2,090,134

CITY OF PATASKALA, OHIO

COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type
	Enterprise
Operating revenues:	
Charges for services	\$ 2,500,596
Other	23,153
Total operating revenues	<u>2,523,749</u>
Operating expenses:	
Personal services	480,450
Contract services	388,295
Materials and supplies	174,630
Depreciation	187,103
Other	87,722
Total operating expenses	<u>1,318,200</u>
Operating income	<u>1,205,549</u>
Nonoperating revenues (expenses):	
Interest expense and fiscal charges	(243,346)
Interest revenue.	20,307
Total nonoperating revenues (expenses)	<u>(223,039)</u>
Net income	982,510
Retained earnings, January 1.	<u>3,320,148</u>
Retained earnings, December 31	<u><u>\$ 4,302,658</u></u>

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

CITY OF PATASKALA, OHIO

COMBINED STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type
	Enterprise
Cash flows from operating activities:	
Cash received from charges for services	\$ 2,495,177
Cash received from other operations	23,153
Cash payments for personal services	(469,953)
Cash payments for contract services	(689,036)
Cash payments for materials and supplies	(175,655)
Cash payments for other expenses	(87,722)
	1,095,964
Net cash provided by operating activities	1,095,964
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(322,982)
Proceeds from issuance of notes	1,695,000
Principal retirement	(2,058,830)
Interest paid	(255,483)
	(942,295)
Net cash used in capital and related financing activities	(942,295)
Cash flows from investing activities:	
Interest received	20,307
	20,307
Net cash provided by investing activities	20,307
Net increase in cash and cash equivalents	173,976
Cash and cash equivalents, January 1	2,738,343
Cash and cash equivalents, December 31	\$ 2,912,319
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,205,549
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	187,103
Changes in assets and liabilities:	
(Increase) in accounts receivable	(5,419)
(Increase) in materials and supplies inventory	(1,025)
(Increase) in prepayments	(295)
Increase in accounts payable	4,402
(Decrease) in contracts payable	(229,454)
(Decrease) in retainage payable	(75,394)
Increase in accrued wages and benefits	3,368
Increase in compensated absences payable	6,100
Increase in pension obligation payable	1,029
	1,029
Net cash provided by operating activities	\$ 1,095,964

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS

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CITY OF PATASKALA, OHIO

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

NOTE 1 - DESCRIPTION OF THE ENTITY

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 general purpose financial statements (GPFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the reporting entity is defined to include the primary government, component units and other organizations that are included to insure that the financial statements are not misleading consistent with GASB Statement No. 14, “The Financial Reporting Entity.” Based on application of the criteria set forth in GASB Statement No. 14, the City evaluated potential component units (PCU) for inclusion based on financial accountability, the nature and significance of their relationship to the City, and whether exclusion would cause the GPFS to be misleading or incomplete. Among the factors considered were whether the City holds the PCU’s cooperate power, appoints a voting majority of the PCU’s board, is able to impose its will on the PCU, or whether a financial benefit/burden relationship exists between the City and the PCU.

CITY OF PATASKALA, OHIO

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

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

The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City and for which the City is accountable. The primary government includes the City departments and agencies that provide the following services: police protection, street maintenance and repairs, building inspection, parks and recreation, and water and sewer services. The preceding financial statements include all funds and account groups of the City (the primary government). The City has no component units, but is a member of two insurance purchasing pools, described in Note 17. 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 2003 for the operation of the Joint Fire District.

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 2003 for the operation of the Sewer District.

B. Basis of Presentation - Fund Accounting

The accounts of the City are maintained on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, as appropriate; and revenues, and expenditures or expenses, as appropriate.

CITY OF PATASKALA, OHIO

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

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

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into generic fund types under the broad fund categories governmental, proprietary and fiduciary. The following fund types and account groups are used by the City:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balance of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental funds:

General Fund - The general fund is used to account for all activities of the City not required to be included in another fund.

Special Revenue Funds - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

CITY OF PATASKALA, OHIO

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

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

Capital Projects Fund - The capital projects fund is used to account for the acquisition or construction of major capital assets other than those financed by proprietary funds.

PROPRIETARY FUNDS

The proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary funds:

Enterprise Funds- The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Agency Funds - These agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds have no measurement focus (i.e., assets equal liabilities), and are presented on a budgetary basis, with note disclosure, if applicable, regarding items which, in other funds, would be subject to accrual.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following accounts groups are used:

General Fixed Asset Account Group - The general fixed assets account group is used to account for all general fixed assets of the City, other than those fixed assets accounted for in the proprietary funds.

General Long-Term Obligations Account Group - The general long-term obligations account group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

CITY OF PATASKALA, OHIO

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

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

C. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) consists of retained earnings. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the reporting of expenses and 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 GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal 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: interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), certain fines and forfeitures, and fees.

DEFERRED REVENUE

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

Delinquent property taxes and property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenues. 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 the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

CITY OF PATASKALA, OHIO

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

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

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. On the modified accrual basis of accounting, 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.

D. Budgets

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 appropriation ordinance, 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 the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. 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 finance director presents the annual operating budget for the following fiscal year 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 GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

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

ESTIMATED RESOURCES

The County Budget Commission determines if the budget justifies the 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 estimate needs to be either increased or decreased. The budget figures which appear in the statement of budgetary comparisons represent the final estimated revenue amounts, including all amendments and modifications.

APPROPRIATIONS

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

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 outstanding at year-end are canceled and the resulting unencumbered funds may be reappropriated in the subsequent fiscal year.

CITY OF PATASKALA, OHIO

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

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

ENCUMBRANCES

As a part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as a reduction of fund balance on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP-basis, encumbrances outstanding at year-end are reported as reservations of fund balances to indicate that a portion of fund balance has been segregated for expenditure on vendor performance.

Note 15 provides a reconciliation of the budgetary-basis and GAAP-basis of accounting.

E. Cash and Cash Equivalents

To improve cash management, cash received other than cash in segregated accounts or with escrow and fiscal agents by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Following Ohio statutes and other legal provisions, the City Council has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$25,200, which includes \$19,498 assigned from other City funds.

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

CITY OF PATASKALA, OHIO

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

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

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, 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 Treasurer's investment account at year-end is provided in Note 4.

F. Prepayments

Prepayments for governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the consumption method, which amortizes their cost over the periods benefitting from the advance payment. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

G. Fixed Assets

Using a threshold of \$500, the City has capitalized fixed assets as follows:

Assets reported in the general fixed assets account group are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year; however, land has been capitalized at the Licking County Auditor's "assessed" value as of May 25, 1998. This valuation is a departure from GAAP. No depreciation is recognized for assets in the general fixed assets account group. Although optional by current reporting standards, the City has elected to include infrastructure in the general fixed assets account group, in the amount of \$28,000.

CITY OF PATASKALA, OHIO

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

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

Property, plant and equipment acquired by the proprietary funds are stated at cost or estimated historical cost, including interest capitalized during construction and engineering fees where applicable. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Machinery, equipment, furniture and fixtures	5 - 20
Buildings	40 - 60
Improvements other than buildings	20 - 50
Infrastructure	30

The City's fixed assets are described in Note 8.

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Special assessment bonds are recognized as a liability of the general long-term obligations account group until due or until resources have been accumulated in the fund for payment early in the following year. Capital lease obligations are reported as a liability of the general long-term obligations account group.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the proprietary fund.

I. Compensated Absences

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

CITY OF PATASKALA, OHIO

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

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

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.

The total liability for vacation and compensatory time payments have been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by City ordinance and/or policy, plus applicable additional salary related payments.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Fund Equity

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditure, including amounts that are legally segregated for a specific future use. As a result, materials and supplies inventories and prepayments are recorded as reservations of fund balance in the governmental funds.

K. Interfund Transactions

During the course of normal operations, the City may have numerous transactions between funds. The most significant may include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not show transfers of resources as operating transfers.

CITY OF PATASKALA, OHIO

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

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

2. Reimbursements from one fund to another (quasi-external transactions) are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans and accrued interfund reimbursements and accrued operating transfers are reflected as interfund loans receivable or payable.
4. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.
5. Non-recurring and non-routine permanent transfers of equity are reported as residual equity transfers.

An analysis of interfund transactions is presented in Note 5.

L. Inventories of Materials and Supplies

Inventories are valued at cost using the first in, first out method. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. The total of inventories at year-end is reported as a reservation of fund balance in the governmental funds because it does not represent available, spendable resources. Inventories are accounted for using the purchase method.

M. Estimates

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

N. Restricted Assets

Restricted assets in the special revenue funds represent cash and cash equivalents with a fiscal agent, which are held by Licking County in relation to Permissive Tax funds.

CITY OF PATASKALA, OHIO

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

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

O. Memorandum Only - Total Columns

The "Total" columns on the GPFS are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Budgetary Non-Compliance

The following funds had appropriations in excess of estimated resources for the year ended December 31, 2003, in noncompliance with Ohio Revised Code Section 5705.39:

<u>Fund Type/Fund</u>	<u>Excess</u>
General Fund	\$142,268
<u>Capital Project Fund</u>	
Courter Bridge Improvement	240,000
<u>Enterprise Fund</u>	
Water	229,454

The following fund had expenditures in excess of appropriations for the year end December 31, 2003, in noncompliance with Ohio Revised Code Section 5705.41 (B):

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Capital Projects Fund</u>	
Issue II	\$219,940

CITY OF PATASKALA, OHIO

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at December 31, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Special Revenue Fund</u>	
Traffic Control	\$ 1,514
<u>Capital Projects Fund</u>	
Courter Bridge Improvement	240,000

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 in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances results from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

CITY OF PATASKALA, OHIO

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

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

Protection of the City's deposit 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.

The City may deposit or invest interim monies in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim moneys;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

Notwithstanding the foregoing requirements, the City may invest any moneys not required to be used for a period of six months in the following classes of investments:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

CITY OF PATASKALA, OHIO

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the finance director or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with Fiscal and Escrow Agents: At year-end, the City had \$13,303 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, 2003. This amount is not included in the City's depository balance below.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the City's deposits (which includes cash in segregated accounts) was \$2,462,831 and the bank balance was \$2,883,907. These balances include \$170,000 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$252,111 was covered by federal depository insurance; and
2. \$2,631,796 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF PATASKALA, OHIO

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

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

Investments: The City’s investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City’s name.

<u>Investment</u>	<u>Category 3</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Repurchase agreements	\$2,215,518	\$2,215,518	\$2,215,518
Total investments	<u>\$2,215,518</u>	<u>\$2,215,518</u>	<u>\$2,215,518</u>

The classification of cash and cash equivalents on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

A reconciliation between the classifications of cash and cash equivalents on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 4,691,652	\$ -
Investments of the cash management pool:		
Repurchase agreements	(2,215,518)	2,215,518
Cash with fiscal and escrow agents	<u>(13,303)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 2,462,831</u>	<u>\$2,215,518</u>

CITY OF PATASKALA, OHIO

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

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at December 31, 2003, related to charges for goods and services rendered, consist of the following individual fund receivables and payables:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$1,811	\$ -
<u>Special Revenue Fund</u>		
Mayor's Court Computer	144	-
<u>Agency Fund</u>		
Mayor's Court	<u>-</u>	<u>1,955</u>
Total	<u>\$1,955</u>	<u>\$1,955</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Real property taxes and public utility taxes in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of the 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 revalued every six years. Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

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

CITY OF PATASKALA, OHIO

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

NOTE 6 - PROPERTY TAXES - (Continued)

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 year preceding the tax collection year, the lien date. Public utility tangible personal property currently is assessed at 88% of true value for taxable transmission and distribution property and 25% of true value for all other taxable property. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Licking County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Pataskala. The Licking County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2003 was \$12.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property	\$236,474,970
Public utility	8,682,240
Tangible personal property	<u>9,391,350</u>
Total valuation	<u><u>\$254,548,560</u></u>

NOTE 7 - RECEIVABLES

Receivables at December 31, 2003 primarily consisted of taxes, accounts (licenses, fees, permits, fines and forfeitures) intergovernmental receivables, amounts due from other funds and accrued interest on investments. All intergovernmental receivables have been classified as "Due From Other Governments" on the combined balance sheet. All receivables are considered fully collectible.

CITY OF PATASKALA, OHIO

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

NOTE 7 - RECEIVABLES - (Continued)

A summary of receivables follows:

	<u>Amount</u>
<u>General Fund</u>	
Real and other taxes	\$ 711,884
Due from other governments	136,555
Accounts	2,500
Due from other funds	1,811
Accrued interest	25
<u>Special Revenue Funds</u>	
Real and other taxes	1,534,559
Due from other governments	305,034
Accounts	3,987
Due from other funds	144
<u>Enterprise Funds</u>	
Water	
Accounts	78,818
Sewer	
Accounts	93,460

NOTE 8 - FIXED ASSETS

A. A summary by class of the changes in general fixed assets during the fiscal year is as follows:

	<u>Balance</u> <u>1/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/03</u>
Land	\$2,122,120	\$ 32,950	\$ -	\$2,155,070
Land improvements	61,660	-	-	61,660
Buildings	645,935	90,114	(90,114)	645,935
Machinery & equipment	382,870	12,991	-	395,861
Vehicles	<u>1,170,092</u>	<u>-</u>	<u>-</u>	<u>1,170,092</u>
Total general fixed assets	<u>\$4,382,677</u>	<u>\$136,055</u>	<u>\$(90,114)</u>	<u>\$4,428,618</u>

CITY OF PATASKALA, OHIO

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

NOTE 8 - FIXED ASSETS - (Continued)

B. A summary of the proprietary fixed assets at December 31, 2003, follows:

	<u>Balance 12/31/03</u>
Land	\$ 27,500
Land improvements	131,716
Buildings and improvements	5,320,874
Vehicles	92,063
Machinery and equipment	1,067,342
Sewer/water mains	<u>1,616,745</u>
Total gross assets	8,256,240
Less: accumulated depreciation	<u>(2,485,636)</u>
 Total net assets	 <u>\$ 5,770,604</u>

NOTE 9 - LONG TERM OBLIGATIONS

A. General Long-Term Obligations

The City's general long-term obligations at year-end consist of the following:

	<u>Balance 1/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/03</u>
Compensated absences	\$ 56,604	\$ -	\$ (3,991)	\$ 52,613
Capital lease obligation	<u>456,683</u>	<u>-</u>	<u>(122,767)</u>	<u>333,916</u>
 Total general long-term obligations	 <u>\$513,287</u>	 <u>\$ -</u>	 <u>\$(126,758)</u>	 <u>\$386,529</u>

Compensated absences are presented net of actual increases and decreases due to the practicality of determining these values. The benefits will be paid from the fund from which the employee is paid. The capital lease obligation will be paid from operating revenues of the special revenue funds, see Note 11 for details.

CITY OF PATASKALA, OHIO

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

NOTE 9 - LONG TERM OBLIGATIONS - (Continued)

B. Enterprise Fund Obligations

The City had the following general obligation revenue bond and long-term loans outstanding at year-end related to enterprise fund operations:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance 1/1/03</u>	<u>Reductions</u>	<u>Balance 12/31/03</u>
Sewer bonds	5.50%-6.125%	2019	\$ 800,000	\$ (30,000)	\$ 770,000
Water OWDA loan	10.57%	2011	777,909	(63,724)	714,185
Sewer OWDA loan	7.55%	2009	<u>1,434,890</u>	<u>(137,106)</u>	<u>1,297,784</u>
 Total enterprise fund obligations			 <u>\$3,012,799</u>	 <u>\$(230,830)</u>	 <u>\$2,781,969</u>

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.

The City has received two loans from the Ohio Water Development Authority (OWDA). The OWDA loans are general obligations of the City, and are expected to be repaid from operating revenues of the water and sewer funds, respectively. These loans were obtained to make improvements to the City's facilities.

CITY OF PATASKALA, OHIO

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

NOTE 9 - LONG TERM OBLIGATIONS - (Continued)

The following is a summary of the City's future annual debt service requirements to maturity for the enterprise fund obligations:

<u>Years</u>	<u>General Obligation Revenue Bonds</u>			<u>OWDA Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 30,000	\$ 46,870	\$ 76,870	\$ 217,221	\$165,687	\$ 382,908
2005	30,000	45,100	75,100	234,968	147,941	382,909
2006	35,000	43,300	78,300	254,181	128,726	382,907
2007	35,000	41,200	76,200	274,986	107,921	382,907
2008	40,000	39,100	79,100	297,514	85,393	382,907
2009 - 2013	225,000	157,975	382,975	733,099	101,503	834,602
2014 - 2018	305,000	79,932	384,932	-	-	-
2019	<u>70,000</u>	<u>4,288</u>	<u>74,288</u>	-	-	-
Total	<u>\$770,000</u>	<u>\$457,765</u>	<u>\$1,227,765</u>	<u>\$2,011,969</u>	<u>\$737,171</u>	<u>\$2,749,140</u>

- C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2003, the City's total debt margin was \$23,945,630, and the unvoted debt margin was \$11,218,202.

CITY OF PATASKALA, OHIO

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

NOTE 10 - NOTES PAYABLE

The City had the following outstanding at December 31, 2003:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Balance 1/1/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/03</u>
<u>Capital Projects Funds</u>							
Bridge Improvement Note	1.83%	09/01/03	09/23/04	\$ -	\$240,000	\$ -	\$240,000
Total bond anticipation note				<u>\$ -</u>	<u>\$240,000</u>	<u>\$ -</u>	<u>\$240,000</u>
<u>Enterprise Funds</u>							
Water Tower/System	2.22%	02/27/02	02/27/03	\$1,133,000	\$ -	\$(1,133,000)	\$ -
Water Tower/System	3.78%	05/09/02	02/27/03	695,000	-	(695,000)	-
Water Tower/System	3.78%	02/26/03	02/25/04	-	1,695,000	-	1,695,000
Total general obligation notes				<u>\$1,828,000</u>	<u>\$1,695,000</u>	<u>\$(1,828,000)</u>	<u>\$1,695,000</u>

The City issued \$240,000 in bond anticipation notes during 2003, to fund a bridge improvement project. The proceeds were recorded in the capital projects fund. The notes have a 1.83% interest rate and are scheduled to mature on September 23, 2004.

The City issued a note with an interest rate of 2.22% in 2002 to replace the notes retired for water tower/system expansion in the amount of \$1,133,000. Additionally, the City issued a note with an interest rate of 2.26% in 2002 for water tower/system expansion in the amount of \$695,000. The City made a principal payment of \$133,000 and retired the remaining \$1,695,000 in 2003 with proceeds of the new note issued described below.

The City issued a note with an interest rate of 1.50% in 2003 to replace the two notes outstanding for the water tower/system expansion project in the amount of \$1,695,000. Property and revenue of the municipal water system has been pledged to repay the debt.

CITY OF PATASKALA, OHIO

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

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal 2002, the City entered into capitalized lease agreements for the acquisition of vehicles, which were accounted for as a capital outlay expenditure and other financing source - proceeds of capital lease in the special revenue funds. The terms of the lease agreements provide an option to purchase the vehicles. These leases meet the criteria of capital leases as defined by FASB No. 13, Accounting for Leases, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for the Governmental Fund Types. General fixed assets acquired by lease have been capitalized in the general fixed assets account group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in the 2003 fiscal year totaled \$122,767. This amount is reflected as debt service principal retirement in the special revenue funds.

The following is an analysis of vehicles acquired by capital lease as of December 31, 2003:

	<u>General Fixed Assets Account Group</u>
Police vehicles	\$238,569
Street vehicles	<u>336,243</u>
Carrying value	<u>\$574,812</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2003:

	<u>General Long-Term Obligations Account Group</u>
<u>Year Ending December 31</u>	<u>Total</u>
2004	\$141,398
2005	141,399
2006	<u>77,234</u>
Total future minimum lease payments	360,031
Less: amount representing interest	<u>(26,115)</u>
Present value of future minimum lease payments	<u>\$333,916</u>

CITY OF PATASKALA, OHIO

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

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)

The City does not have capitalized lease obligations after fiscal year 2006.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2003 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$134,440, \$132,048, and \$98,258, respectively; 76% has been contributed for 2003 and 100% for 2002 and 2001. \$32,582, representing the unpaid contribution for 2003, is recorded as a liability within the respective funds.

CITY OF PATASKALA, OHIO

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2003, 2002, and 2001 were \$129,953, \$124,674, and \$80,713, respectively; 76% has been contributed for 2003 and 100% for the years 2002 and 2001. \$31,628, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

NOTE 13 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

OPERS provides postretirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

CITY OF PATASKALA, OHIO

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

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$49,609.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

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

In December 2002, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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

CITY OF PATASKALA, OHIO

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

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, “Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers”. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer’s contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter’s employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F’s Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,527 for police officers and 10,396 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters were \$37,187 and \$11,750, respectively. OP&F’s total health care expense for the year ending December 31, 2002 (the latest information available), was \$141.028 million, which was net of member contributions of \$12.623 million.

CITY OF PATASKALA, OHIO

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

NOTE 14 - 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, 2003, the liability for non-current compensated absences in governmental fund types was \$52,613, and that amount was reported in the general long-term obligations account group. The current portion of compensated absences (those paid using current expendable available resources) for governmental fund type employees was \$14,031 and has been recorded as fund liability. \$23,068 was the liability for compensated absences reported in the enterprise funds. The total liability for the City's compensated absences for all fund types and account groups was \$89,712.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances on the basis of GAAP basis, the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP basis are:

- 1) Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

CITY OF PATASKALA, OHIO

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- 3) Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
- 4) Short-term note proceeds and note principal retirement are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
- 5) State statute requires short-term note debt to be repaid from the debt service fund (budget) as opposed to the fund that received the proceeds (GAAP).

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES
OVER/(UNDER) EXPENDITURES AND OTHER FINANCING USES

	Governmental Fund Types			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Budget basis	\$(25,419)	\$111,715	\$(30)	\$ -
Adjustments:				
Net adjustment for revenue accruals	(30,618)	(30,684)	-	78,380
Net adjustment for expenditure accruals	15,872	(37,717)	-	(78,380)
Net adjustment for other financing sources	-	-	-	(240,000)
GAAP basis	<u><u>\$(40,165)</u></u>	<u><u>\$ 43,314</u></u>	<u><u>\$(30)</u></u>	<u><u>\$(240,000)</u></u>

CITY OF PATASKALA, OHIO

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

NOTE 16 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds, two of which are intended to be self-supporting from user fees charged for services provided to consumers for water and sewer, while the other fund is used to account for operations at Highland Hills. Segment information for the year ended December 31, 2003 is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Highland Hills</u>	<u>Total</u>
Operating revenues	\$1,278,553	\$1,245,196	\$ -	\$2,523,749
Depreciation	87,784	99,319	-	187,103
Operating income	463,369	743,071	(891)	1,205,549
Net income	383,071	600,330	(891)	982,510
Additions to property, plant and equipment	322,982	-	-	322,982
Net working capital	1,488,365	1,521,900	-	3,010,265
Total assets	4,644,944	4,222,215	-	8,867,159
Long-term liabilities payable from fund revenues	2,409,185	2,067,784	-	4,476,969
Total equity	2,171,730	2,130,928	-	4,302,658

NOTE 17 - RISK MANAGEMENT

A. Comprehensive

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 is part of the Ohio Government Risk Management Plan, an insurance purchasing pool, for all property, crime, liability, boiler and machinery, and public official liability. The City has transferred its risk of loss to the insurance carrier to the extent of the respective policy limitations.

CITY OF PATASKALA, OHIO

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

NOTE 17 - RISK MANAGEMENT - (Continued)

B. Employee Medical, Dental, Vision and Life

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

C. Workers' Compensation

The City participates in the Ohio Municipal League 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 18 - CONTINGENCIES

A. Grants

The City receives financial assistance from various federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires the compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

CITY OF PATASKALA, OHIO

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

NOTE 18 - 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 19 - SIGNIFICANT SUBSEQUENT EVENT

On February 25, 2004, the Water Tower/System Improvement bond anticipation note matured. The City made a payment of \$100,000 and reissued \$1,595,000, in bond anticipation notes at an interest rate of 1.68% to mature on September 24, 2005.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of Council and Mayor
The City of Pataskala
196 E. Broad Street
Pataskala, Ohio 43062

We have audited the general purpose financial statements of the City of Pataskala as of and for the year ended December 31, 2003 and have issued our report thereon dated May 4, 2004, which was qualified due to the City not reporting its governmental fund land values at a historical cost. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Pataskala's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as items 2003-COP-001 and 2003-COP-002. We also noted certain immaterial instances of noncompliance, which we have reported to management of the City in a separate letter dated May 4, 2004.

Members of Council and Mayor
The City of Pataskala

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pataskala's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pataskala's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-COP-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2003-COP-003 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the City of Pataskala in a separate letter dated May 4, 2004.

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

Trimble, Julian & Grube, Inc.
May 4, 2004

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

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

Finding Number	2003-COP-001
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Ohio Revised Code Section 5705.39 in part requires that total appropriation from each fund should not exceed total estimated resources.

It was noted during the audit that during the year ended December 31, 2003, total appropriations exceeded total estimated resources in the following funds:

<u>Fund Type/Fund</u>	<u>Excess</u>
General Fund	\$142,268
<u>Capital Project Fund</u>	
Courter Bridge Improvement	240,000
<u>Enterprise Fund</u>	
Water	229,454

With appropriations exceeding estimated resources, the City is unlawfully appropriating monies and thus could cause a negative fund balance.

We recommend that the City comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003**

**1. FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)**

Finding Number	2003-COP-002
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Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.

It was noted during the audit that during the City had expenditures in excess of appropriations for the year ended December 31, 2003 in the following fund:

<u>Fund Type/Fund</u>	<u>Excess</u>
<u>Capital Projects Fund</u> Issue II	\$219,940

The City is expending monies that have not been appropriated by the Members of Council. This could result in unnecessary purchases or fund deficits.

We recommend that the City comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely in a continual basis and making appropriation amendments as necessary.

Finding Number	2003-COP-003
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Fixed Assets

The City's land values, as presented in the general fixed asset account group, are reported at the assessed value as reported by the Licking County Auditor, during 2003. This was the City's estimate of its land historical cost. The assessed value is an extrapolated amount from the land's market value at the time of review. Thirty-five percent of the market value is said to be the assessed value. The assessed values are commonly used as the base for which tax rates are applied in the calculation of real estate taxes owed on the property.

Accounting principles generally accepted in the United States of America (GAAP) requires that the governmental assets be valued at cost or estimated cost. The City should locate the applicable deeds for the land in order to properly value it in accordance with applicable accounting principles.

**CITY OF PATASKALA
LICKING COUNTY, OHIO**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-COP-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed total estimated resources.	No	The City is monitoring its appropriations versus estimated resources on a more consistent basis.
2002-COP-002	The City had funds in which expenditures exceeded appropriations for the year ended December 31, 2003, in noncompliance with Ohio Revised Code Section 5705.41(B).	No	The City is doing a better job of monitoring its expenditures versus appropriations.
2002-COP-003	The City's land values, as presented in the general fixed asset account group, are reported at the assessed value as reported by the Licking County Auditor, during 2003. This was the City's estimate of its land historical cost. The assessed value is an extrapolated amount from the land's market value at the time of review. Thirty-five percent of the market value is said to be the assessed value. The assessed values are commonly used as the base for which tax rates are applied in the calculation of real estate taxes owed on the property.	No	The City is having an appraisal performed by outside consultants in preparation of implementing GASB 34 for December 31, 2004.



**Auditor of State
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CITY OF PATASKALA

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 20, 2004**