CITY OF PATASKALA
LICKING COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1998

JIM PETRO
AUDITOR OF STATE
STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

City Council
City of Pataskala
430 South Main Street
Pataskala, Ohio 43062

We have audited the accompanying general-purpose financial statements of the City of Pataskala, Licking County, Ohio, (the City) as of and for the year ended December 31, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City'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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed 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 at May 25, 1998. The land represents 53% or $1,903,520, of the total general fixed asset account group assets.

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, 1998, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As more fully described in Note 3 to the general-purpose financial statements, certain changes in accounting policies and financial reporting practices were made in order to present the aforementioned general-purpose financial statements in conformity with generally accepted accounting principles. Such changes were adopted effective January 1, 1998 and to implement those changes, adjustments were made to restate fund balances and retained earnings as of that date.

Jim Petro

JIM PETRO
Auditor of State

August 31, 1999

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COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Debt Service	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
ASSETS AND OTHER DEBITS								
ASSETS:								
Equity in pooled cash and cash equivalents. . .	$251,099	$359,714	$36,012	$960,024	$93,799			$1,700,648
Investments		30,000		255,000				285,000
Cash in segregated accounts					8,681			8,681
Receivables (net of allowances for uncollectibles):								
Taxes	403,376	943,033						1,346,409
Accounts.	7,216	835						8,051
Accrued interest	1,058							1,058
Special assessments		108						108
Due from other funds								0
Due from other governments	9,238	33,609						42,847
Prepayments.	19,957	20,538		4,290				44,785
Materials and supplies inventory		28,293		6,250				34,543
Property, plant and equipment (net of accumulated depreciation where applicable)				4,781,838		$3,612,284		8,394,122
OTHER DEBITS:								
Amount available in debt service fund for retirement of special assessment bonds							$36,012	36,012
Amount to be provided for retirement of general long-term obligations.							29,007	29,007
Total assets and other debits.	$691,944	$1,416,130	$36,012	$6,007,402	$102,480	$3,612,284	$65,019	$11,931,271

(continued)

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

Exhibit 1

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998
(Continued)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Type	Account Groups		
	General	Special Revenue	Debt Service	Enterprise	Agency	General Fixed Assets	General Long-Term Obligations	Total (Memorandum Only)
LIABILITIES, EQUITY AND OTHER CREDITS								
LIABILITIES:								
Accounts payable	$20,994	$81,787		$65,050	$17,699			$185,530
Accrued wages and benefits	17,048	39,473		12,855				69,376
Compensated absences payable				11,510			$46,076	57,586
Pension obligation payable	7,990	41,867		12,286				62,143
Deferred revenue	383,493	943,141						1,326,634
Deposits held and due to others					$84,781			84,781
Due to other governments	60			2,250				2,310
Accrued interest payable				4,536				4,536
Notes payable		35,000		661,000				696,000
General obligation bonds payable				900,000				900,000
Special assessment debt with government commitment							16,000	16,000
OWDA loans payable				2,875,784				2,875,784
Obligation under capital lease							2,943	2,943
Total liabilities	429,585	1,141,268		4,545,271	102,480		65,019	6,283,623
EQUITY AND OTHER CREDITS:								
Investment in general fixed assets						3,612,284		3,612,284
Retained earnings - unreserved				1,462,131				1,462,131
Fund balances:								
Reserved for materials and supplies inventory		28,293						28,293
Reserved for prepayments	19,957	20,538						40,495
Reserved for debt service			$36,012					36,012
Unreserved-undesignated	242,402	226,031						468,433
Total equity and other credits	262,359	274,862	36,012	1,462,131	0	3,612,284		5,647,648
Total liabilities, equity and other credits	**$691,944**	**$1,416,130**	**$36,012**	**$6,007,402**	**$102,480**	**$3,612,284**	**$65,019**	**$11,931,271**

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 1998

	Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects	Total (Memorandum Only)
Revenues:					
Property and other taxes	$312,435	$815,999			$1,128,434
Charges for services		190,782			190,782
Licenses, permits and fees	72,158	1,325			73,483
Fines and forfeitures	103,256				103,256
Special assessments		1,975	$6,475		8,450
Intergovernmental	214,263	724,412		238,660	1,177,335
Investment income	48,779				48,779
Other	34,347	48,321			82,668
Total revenue	785,238	1,782,814	6,475	238,660	2,813,187
Expenditures:					
Current Operations:					
General government	364,457				364,457
Security of persons and property	292,497	684,643			977,140
Public health and welfare	25,108				25,108
Transportation		558,168			558,168
Community environment	68,604	3,047			71,651
Leisure time activity		374,975			374,975
Capital outlay		118,251		238,660	356,911
Debt service:					
Principal retirement	1,848		4,000		5,848
Interest and fiscal charges	351	2,498	4,328		7,177
Total expenditures	752,865	1,741,582	8,328	238,660	2,741,435
Excess (deficiency) of revenues over (under) expenditures	32,373	41,232	(1,853)		71,752
Other financing uses:					
Operating transfers out	(19,436)				(19,436)
Total other financing uses	(19,436)				(19,436)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	12,937	41,232	(1,853)		52,316
Fund balances, January 1 (Restated)	249,422	230,375	37,865		517,662
Increase in reserve for inventory		3,255			3,255
Fund balances at December 31.	**$262,359**	**$274,862**	**$36,012**	**$0**	**$573,233**

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

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Exhibit 3

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, 1998

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Property and other taxes	$365,795	$330,362	($35,433)	$902,428	$815,999	$14,918
Charges for services				115,401	190,182	6,460
Licenses, permits and fees	63,994	71,524	7,530	1,200	1,090	(110)
Fines and forfeitures	93,585	104,594	11,009			
Intergovernmental	125,259	211,232	85,973	400,024	737,004	143,324
Special assessments				2,000	1,975	(829)
Investment income	22,912	29,013	6,101			
Other	46,685	51,899	5,214	61,503	48,632	3,711
Total revenues	718,230	798,624	80,394	1,482,555	1,794,882	167,474
Expenditures:						
Current:						
General government	532,343	372,087	160,256			
Security of persons and property	297,133	303,867	(6,734)	706,607	630,902	88,583
Public health and welfare	25,000	25,000				
Transportation				630,150	580,764	34,386
Community environment	75,500	68,018	7,482	6,945	3,043	3,902
Leisure time activity				421,290	376,613	44,677
Capital outlay					118,251	(118,251)
Debt service:						
Principal retirement					15,000	(15,000)
Interest and fiscal charges						
Total expenditures	929,976	768,972	161,004	1,764,992	1,724,573	38,297
Excess (deficiency) of revenues over (under) expenditures	(211,746)	29,652	241,398	(282,437)	70,309	352,746
Fund balance at January 1	221,447	221,447	0	319,428	319,428	0
Fund balance at December 31	**$9,701**	**$251,099**	**$241,398**	**$36,991**	**$389,737**	**$352,746**

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)**
						$1,268,222	$1,146,361	($20,514)
			$55,000		($55,000)	170,401	190,182	(48,540)
						65,194	72,614	7,420
						93,585	104,594	11,009
			70,000	238,660	168,660	595,283	1,186,896	397,956
$7,000	$6,475	$525				9,000	8,450	(304)
						22,912	29,013	6,101
						108,188	100,531	8,925
7,000	6,475	525	125,000	238,660	113,660	2,332,785	2,838,641	362,053
	16	(16)				532,343	372,103	160,240
						1,003,740	934,769	81,849
						25,000	25,000	0
						630,150	580,764	34,386
						82,445	71,061	11,384
						421,290	376,613	44,677
			148,279	238,660	(90,381)	148,279	356,911	(208,632)
4,000	4,000					4,000	19,000	(15,000)
4,328	4,313					4,328	4,313	0
8,328	8,329	(16)	148,279	238,660	(90,381)	2,851,575	2,740,534	108,904
(1,328)	(1,854)	(526)	(23,279)	0	23,279	(518,790)	98,107	616,897
37,865	37,865	0	25,779	25,779	0	604,519	604,519	0
$36,537	**$36,011**	**($526)**	**$2,500**	**$25,779**	**$0**	**$85,729**	**$702,626**	**$616,897**

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS PROPRIETARY FUND TYPE FOR THE YEAR ENDED DECEMBER 31, 1998

	Proprietary Fund Type
	Enterprise
Operating revenues:	
Charges for services	$1,347,892
Other operating revenues	36,735
Total operating revenues	1,384,627
Operating expenses:	
Personal services	375,395
Contract services	212,632
Materials and supplies	59,768
Depreciation	167,183
Other operating expense	10,630
Total operating expenses	825,608
Operating income	559,019
Nonoperating expenses:	
Interest expense and fiscal charges	(310,781)
Total nonoperating expenses	(310,781)
Net income before operating transfers	248,238
Operating transfers in	19,436
Net income	267,674
Retained earnings at January 1 (Restated)	1,194,457
Retained earnings December 31	**$1,462,131**

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

COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 1998

	Proprietary Fund Type
	Enterprise
Cash flows from operating activities:	
Cash received from customers	$1,347,892
Cash received from other operations	36,735
Cash payments for personal services	(367,095)
Cash payments for contract services	(172,764)
Cash payments supplies and materials	(67,389)
Cash payments for other expenses	(12,302)
Net cash provided by operating activities	765,077
Cash flows from noncapital financing activities:	
Transfers in from other funds	19,436
Net cash provided by noncapital financing activities	19,436
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(461,894)
Proceeds from issuance of long-term debt	661,000
Principal retirement	(340,796)
Interest paid	(310,872)
Net cash used in capital and related financing activities	(452,562)
Net increase in cash and cash equivalents	331,951
Cash and cash equivalents at January 1	883,073
Cash and cash equivalents at December 31	**$1,215,024**
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	559,019
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	167,183
Changes in assets and liabilities:	
Increase in materials and supplies inventory	(703)
Increase in prepayments	(4,290)
Increase in accounts payable	33,318
Increase in accrued wages and benefits	5,954
Increase in compensated absences payable	74
Increase in due to other governments	2,250
Increase in pension obligation payable	2,272
Net cash provided by operating activities	**$765,077**

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

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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 eight-member Council, a Mayor, City Administrator, as the chief executive officer and a finance director as 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. During apart of this period, the clerk-treasurer acted as the financial officer of the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Pataskala have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more 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 Governmental Accounting Standards Board 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 general purpose financial statements 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.

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 financially 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 organization is described due to its relationship with the City.

Jointly Governed Organization

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 1998 for the operation of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The following fund types and account groups are used by the City:

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 Funds

The debt service funds are used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

Capital Projects Funds

The capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

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 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. These include agency 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (continued)

Account Groups:

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.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is utilized for reporting purposes by the governmental and expendable trust funds. Under this method of accounting, the City recognizes revenue and other financing sources when they become both measurable and available (i.e., collectible within the current period or within 60 days thereafter) to finance current City operations. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues considered susceptible to accrual at the end of the year include income taxes, interest on investments, state-levied locally shared taxes (including motor vehicle license fees, gasoline taxes, and local government assistance), and reimbursements due from federally funded projects for which corresponding expenditures have been made. Other revenues, including licenses, permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Delinquent special assessments and property taxes, as well as special assessment installments not due in the current year, are recorded as deferred revenue because they do not meet the availability criteria. Property taxes measurable as of December 31, 1998 but not intended to finance 1998 activities have also been recorded as deferred revenue. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Unbilled service charges receivable are recognized as revenue at year-end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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.

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 Clerk-Treasurer determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased.

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 measurers were passed. The budget figures which appear in the statement of budgetary comparisons (Exhibit 3) represent the final appropriation amounts, including all amendments and modifications.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. Budgets (continued)

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.

Encumbrances

As part of formal budgetary control, purchases orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis (Exhibit 3) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

The Ohio Revised Code prohibits expenditures plus encumbrances (if any) at year end from exceeding appropriations. On the GAAP basis (Exhibit 1) encumbrances outstanding at year- end for governmental funds are reported as reservations of fund balances for subsequent-year expenditures.

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 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" and "investments" on the combined balance sheet.

During fiscal year 1998, investments were limited to certificates of deposit and a money market mutual fund. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and money market mutual funds are reported at cost.

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.

For purpose 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 County are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. Prepaid Items

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 allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-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

General fixed assets are capitalized at cost (or estimated historical cost) with the exception of Land values and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group (GFAAG). No depreciation is recognized for assets in the General Fixed Assets Account Group. Land was capitalized at the “assessed value” exempt from taxation, as reported by the Licking County Auditor at May 25, 1999. This is not in conformity with general accepted accounting principals. The City has included infrastructure in the General Fixed Assets Account Group. The infrastructure totaled $28,000. The recording of infrastructure is optional. Assets are capitalized and included in the fixed asset when their value is equal or exceeds $500.

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:

Description	Estimated Lives (Years)
Machinery, equipment, furniture and fixtures	5 - 20
Buildings	40 - 60
Improvements other than buildings	20 - 50

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 and capital leases 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

I. Compensated Absences

The liability for compensated absences is based on the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

The total liability for vacation payments has 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, inventories, prepaids and available debt service equity are recorded as reservations of fund balance.

K. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. The most significant 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

L. Inventory

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.

M. Bond Discounts, Premiums and Issuance Costs

When the proceeds from general obligation bonded debt are placed in a governmental type fund, any bond issuance costs are shown as capital outlay expenditures. Any premium or discount is included in "Other Financing Sources - Bond Proceeds" on the Statement of Revenues, Expenditures and Changes in Fund Balance. The long-term debt that appears in the General Long-Term Obligations Account Group is reported at the bond's purchase price, less accrued interest.

When the proceeds from general obligation bonded debt are placed in a proprietary fund, and the debt will be serviced from revenues generated by that fund, then any material issuance costs will be reported as a deferred charge and amortized over the life of the bond using the interest method. Any material discounts or premiums are shown as additions to or deductions from the amount of the bond liability, are amortized using the interest method, and are reflected as interest income or expense in the Statement of Revenues, Expenses, and Changes in Retained Earnings.

N. Statement of Cash Flows

In September 1989, the Government Accounting Standards Board (GASB) issued Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". The City has presented, in Exhibit 5, a statement of cash flows for its enterprise funds. For purposes of the statement of cash flows, the City considers cash equivalents to include all short term investments (maturity of 90 days or less from date of purchase).

O. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

P. Financial Reporting for Proprietary and Similar Fund Types

The City's financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting". This Statement is effective for financial statements beginning after December 15, 1993. The City accounts for its proprietary activities in accordance with all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Q. Memorandum Only - Total Columns

The "total" columns on the general purpose financial statements 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 generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Financial Statement Presentation and Basis of Accounting

For the year ended December 31, 1998, the City has presented for the first time general purpose financial statements by fund type and account group in accordance with GAAP. In conjunction with this presentation, the City has converted its governmental funds and expendable trust fund to the modified accrual basis of accounting and its proprietary funds to the accrual basis of accounting. This conversion required that certain adjustments be recorded to the January 1, 1998 fund balances/retained earnings as previously reported to reflect the prior year's effect of adopting these new accounting principles. The restatements to the opening fund balances are as follows:

Fund Type	Balance as Previously Stated at December 31, 1997	Adjustments	Restated Balance at January 1, 1998
General	$221,447	$27,975	$249,422
Special Revenue	273,626	(43,251)	230,375
Debt Service	37,865	0	37,865
Capital Projects	25,779	(25,779)	0
Enterprise	883,072	311,385	1,194,457
Agency	119,075	(119,075)	0

B. Deficit Balances

The following fund had a deficit fund balance as of December 31, 1998:

Special Revenue Funds	Deficit Balance
Police Levy	$ (6,631)

This fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur

4. EQUITY IN POOLED CASH AND INVESTMENTS

A. Legal Requirements

Moneys held by the City are classified into two categories, as required by Statute

Active moneys are public moneys determined to be necessary to meet current demand upon the City treasury. Active moneys 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.

4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

A. Legal Requirements (continued)

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

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

States statues permit interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

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;

4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

A. Legal Requirements (continued)

Obligations of the City.

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.

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".

B. Deposits

At year-end, the carrying amount of the City's deposits was $1,994,329 and the bank balance was $1,622,107. The City's carrying amount includes non-negotiable certificates of deposit and deposits in segregated accounts. Of the bank balance:

1. $208,681 was covered by federal depository insurance; and

2. $1,413,426 was uninsured and uncollateralized. 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.

C. Investments

The City's investments are required to be categorized to give an indication of the level of 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. Money market mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Fair Value
Investments not Subject to Categorization:	
Money Market Mutual Funds	$399,487
Total Investments	$399,487

4. EQUITY IN POOLED CASH AND INVESTMENTS (continued)

C. Investments (continued)

The classification of cash and cash equivalents on the combined balance sheet statements 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 pooled cash, cash equivalents and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
Per GASB Statement No. 9	$ 1,700,648	$ 285,000
Combined Balance Sheet Reclassifications:		
Money Market Mutual Funds	(399,487)	399,487
Certificates of Deposit	285,000	(285,000)
Total GASB Statement No. 3 Investments		$ 399,487
Cash in Segregated Accounts	8,681	
Total Carrying Amount of Deposits Per GASB Statement No. 3	$ 1,594,842	

5 INTERFUND TRANSACTIONS

The following is a summarized reconciliation of the City's operating transfers for 1998:

Fund	Transfers In	Transfers Out
General Fund		$(19,436)
Enterprise Funds		
Water	$ 9,718	
Sewer	9,718	
Totals	$19,436	$(19,436)

6. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected on real property (other than public utility) 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.

6. PROPERTY TAXES (Continued)

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.

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. Certain public utility tangible personal property currently is assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

The full tax rate for all City operations for the year ended December 31, 1998 was $12.40 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 1998 property tax receipts were based are as follows:

Real Property	$110,614,310
Public Utility	8,613,640
Tangible Personal Property	7,574,440
Total Valuation	$126,802,390

7. RECEIVABLES

Receivables at December 31, 1998 primarily consisted of taxes, accounts, intergovernmental receivables and interest on investments. All receivables are considered fully collectible.

A summary of principal receivables follows:

	Amount
General Fund	
Real and Other Taxes	$403,376
Due From Other Governments	9,238
Special Revenue Funds	
Real and Other Taxes	943,033
Due from other Governments	33,609

8. FIXED ASSETS

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

	Balance 12/31/97	Additions	Deletions	Balance 12/31/98
Land	$1,903,520			$1,903,520
Land Improvements	61,660			61,660
Buildings	633,681			633,681
Machinery & Equipment	324,242	$37,524		361,766
Vehicles	595,547	56,110		651,697
Total General Fixed Assets	$3,518,650	$93,634	$ 0	$3,612,284

B. A summary of the proprietary fund property, plant, and equipment at December 31, 1998 is as follows:

	Balance 12/31/98
Land	22,000
Land Improvements	$ 131,716
Buildings	3,155,648
Vehicles	131,163
Machinery and Equipment	1,024,667
Sewer/Water Mains	1,616,745
Construction in Progress	348,859
Total Gross Assets	6,430,798
Less: Accumulated Depreciation	(1,648,960)
Total Net Assets	$4,781,838

The construction in progress is a water tower project that is expected to be completed during 1999.

9. LONG TERM OBLIGATIONS

A. Long-term debt obligations of the City at December 31, 1998 were as follows:

	Maturity Date	Balance January 1, 1998	(Retired)	Balance December 31, 1998
General Long-Term Obligations:				
Special Assessment Bonds 12.50%	2002	$ 20,000	$ (4,000)	$ 16,000
Total General Long-Term Obligations		$ 20,000	$ (4,000)	$ 16,000
Enterprise Fund Obligations:				
Sewer Bond 5.50% - 6.125%	2019	$ 920,000	$ (20,000)	$ 900,000
Water OWDA Loan 10.57%	2011	1,022,715	(40,516)	982,199
Sewer OWDA Loan 7.55%	2009	1,988,865	(95,280)	1,893,585
Total Enterprise Fund Obligations		$3,931,580	$(155,796)	$3,775,784

9. LONG TERM OBLIGATIONS (Continued)

Special assessment bonds will be paid from the proceeds of special assessments levied against the property owners who are primarily benefitted from the project. In the event that property owners fail to make their payments, the City is responsible for providing the resources to meet annual principal and interest payments.

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 OWDA loans are general obligations of the City, expected to be repaid from operating revenues of the water and sewer funds, respectively.

B. The following is a summary of the City’s future annual debt service requirements to maturity for long-term debt obligations:

	Special Assessment Bonds		Enterprise General Obligation Bonds		Enterprise OWDA Loans		Total
Years	Principal	Interest	Principal	Interest	Principal	Interest	Long-Term Obligations
1999	$ 4,000	$2,000	$ 25,000	$ 54,428	$ 146,831	$ 236,079	$ 468,338
2000	4,000	1,500	25,000	52,990	158,772	224,136	466,398
2001	4,000	1,000	25,000	51,552	171,698	211,212	464,462
2002	4,000	500	25,000	50,114	185,686	197,222	462,522
2003			30,000	48,640	200,830	182,080	461,550
2004 - 2008			170,000	215,570	1,278,870	619,668	2,284,108
2009 - 2013			225,000	157,976	733,097	101,503	1,217,576
2114 - 2118			305,000	79,930			384,930
2119			70,000	4,288			74,288
Total	$16,000	$5,000	$900,000	$715,488	$2,875,784	$1,771,900	$6,284,172

C. Changes in other long-term obligations of the City during 1998 were as follows:

	Outstanding 12/31/97	Additions	(Reductions)	Outstanding 12/31/98
Other General Long-Term Obligations:				
Compensated Absences	$36,198	$46,076	$(36,198)	$46,076
Capital Lease Obligation	4,791		(1,848)	2,943
Total Other General Long-Term Obligations	$40,989	$46,076	$(38,046)	$49,019

Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. The capital lease obligation will be paid from operating revenues of the General fund.

9. LONG TERM OBLIGATIONS (Continued)

D. 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, 1998, the City's total debt margin was $12,414,251, and the unvoted debt margin was $6,074,131.

10. NOTES PAYABLE

The City had the following general obligation notes outstanding at December 31, 1998:

Maturity Date	Issue Date	Balance 12/31/97	Issued	Retired	Balance 12/31/98
General Obligation Notes					
Special Revenue Fund:					
Capital Improvements - Infrastructure - 4.5%					
	12/11/98	$ 50,000	$ 35,000	$ (50,000)	$ 35,000
Enterprise Fund:					
Sewer System Expansion - 4.4%	08/05/98	185,000	133,000	(185,000)	133,000
08/05/99					
Water Tower Construction - 4.15%					
	03/03/98		528,000		528,0000
Total General Obligation Notes		$235,000	$696,000	$(235,000)	$696,000

A general obligation note, with an interest rate of 4.5%, was issued in 1996 to cover the City's share of the costs for a capital improvements project for the City's infrastructure. The project was largely financed with State of Ohio funds. The City renewed $35,000 of this note at an interest rate of 4.5% in 1998. General obligation notes are the direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

The City issued a note with an interest rate of 4.52% in 1996 for sewer system expansion. The City renewed $133,000 of this note at an interest rate of 4.40% in 1998. Property and revenue of the municipal sanitary sewer system has been pledged to repay this debt.

A $528,000 bond anticipation note with an interest rate of 4.15% was issued in 1998 for construction of a water tower. Property and revenue of the municipal water system has been pledged to repay this debt.

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

In 1997, the City entered into a capitalized lease agreement for the acquisition of a copier, which was accounted for as a capital outlay expenditure and other financing source - proceeds of capital lease in the General fund.

11. CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

The terms of the lease agreement provide an option to purchase the equipment. This lease meets the criteria of a capital lease as defined by Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee 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 and Expendable Trust Fund. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in the amount of $5,789, which is equal to the present value of the future minimum lease payments as of the date of lease inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 1998 fiscal year totaled $1,848. This amount is reflected as debt service principal retirement in the General fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of December 31, 1998.

General Long-Term Obligations Account Group

Year Ending December 31	Copier
1999	$2,198
2000	916
Total Future Minimum Lease Payments	3,114
Less: Amount Representing Interest	(171)
Present Value of Future Minimum Lease Payment	$2,943

The City does not have capitalized lease obligations after fiscal year 2000.

12. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All Pataskala City full-time employees, other than uniformed employees, participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system created by the State of Ohio. PERS 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. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

12. DEFINED BENEFIT PENSION PLANS (Continued)

A. Public Employees Retirement System (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 1998 was 8.5 percent for employees other than law enforcement. Law enforcement employees contribute 9.0 percent of covered salary. The employer contribution rate was 13.55 percent of covered payroll; 9.35 percent was the portion used to fund pension obligations for 1998. The law enforcement employer rate was 16.70 percent of covered payroll and 12.5 percent was the portion used to fund pension obligations for 1998. The City's contributions for pension obligations to PERS for the years ended December 31, 1998, 1997, and 1996 were, $102,184, $98,963 and $90,121, respectively. 71 percent has been contributed for 1998 and 100 percent for 1997 and 1996. The unpaid contribution for 1998 of $29,554 is recorded as a liability within the respective funds.

B. Police and Firemen's Disability and Pension Fund

Full-time uniformed employees of the City participate in the Police and Firemen's Disability and Pension Fund of Ohio (PFDPF), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. This is a single retirement system with one administration that provides retirement benefits to two classes of employees. Authority to establish and amend benefits is provided by state statute per Chapter 742 of the Ohio Revised Code. PFDPF issues a stand-alone financial report which may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent and 24 percent for police officers and firefighters, respectively. The City's contributions for pension obligations to the PFDPF for the years ended December 31, 1998, 1997, and 1996 were $104,744, $89,415 and $90,673, respectively; 72 percent has been contributed for 1998 and 100 percent for the years 1997 and 1996. $29,530, representing the unpaid contributions for 1998, is recorded as a liability within the respective funds.

13. POSTRETIREMENT BENEFIT PLANS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten 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 as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1998 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1998.

13. POSTRETIREMENT BENEFIT PLANS (continued)

A. Public Employees Retirement System (continued)

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to postemployment benefits. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2 percent of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

Postemployment benefits 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.

Statewide expenditures for OPEB during 1998 were $440.597 million. As of December 31, 1998, the unaudited estimated net assets available statewide for future OPEB payments were $9.447 billion. The number of benefit recipients statewide eligible for OPEB at December 31, 1998 was 115,579. The City's actual contributions for 1998 which were used to fund postemployment benefits were $31,673.

B. Police and Firemen's Disability and Pension Fund

The Police and Firemen's Disability and Pension Fund (the "Fund") 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 full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered another Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 6.5 percent of covered payroll is applied to the postemployment health care program. 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, 1998 was 11,239 for police and 9,025 for firefighters. The City's actual contributions for 1998 that were used to fund postemployment benefits were $25,260 for police and $7,829 for fire. The Fund's total health care expense for the year ended December 31, 1997 (the latest information available) were $76,459,832.

14. OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation at different rates which are also affected by length of service. Vacation cannot be carried over, however, all employees get a full year's accrual of vacation on January 1 of the following year.

As of December 31, 1998, the liability for unpaid compensated absences reported as a fund liability in governmental fund types was $46,076, and that amount was reported in the General Long-Term Obligations Account Group. $11,510 was the liability for non-current compensated absences reported in the Enterprise fund. The total liability for the City's compensated absences for all fund types and account groups was $57,586.

15. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (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 (Budget 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 (generally accepted accounting principles) basis are:

1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

2) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

3) Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).

4) 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).

15. BUDGETARY BASIS OF ACCOUNTING (continued)

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

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

	Governmental Fund Types			
	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund
Budget Basis	$33,694	$56,585	$(1,853)	$0
Adjustments:				
Net Adjustment for Revenue Accruals	(17,428)	132,785		
Net Adjustment for Expenditure Accruals	16,107	(148,138)		
Net adjustment for Other Financing Sources (Uses) Accruals	(19,436)			
GAAP Basis	$12,937	$41,232	$(1,853)	$0

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which are intended to be self-supporting from user fees charged for services provided to consumers for water and sewer. Segment information for the year ended December 31, 1998 is as follows:

	Water Fund	Sewer Fund	Total
Operating revenues	$759,189	$625,438	$1,384,627
Depreciation	66,890	100,293	167,183
Operating income	238,982	320,037	559,019
Net income	142,029	106,209	248,238
Additions to property, plant and equipment	448,277	13,617	461,894
Net working capital	1,077,939	50,648	1,128,587
Total assets	2,793,864	3,213,538	6,007,402
Long-term liabilities payable from fund revenues	1,591,243	2,954,028	4,545,271
Total equity	1,201,522	260,609	1,462,131

17. RISK MANAGEMENT

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.

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.

18. CONTINGENT LIABILITIES

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, 1998.

B. Litigation

The City is involved in a zoning lawsuit. 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.

19. SUBSEQUENT EVENTS

On February 16, 1999 Council passed Ordinance 99-3269 authorizing the issuance of a Note in the amount of $503,000 for the purpose of acquiring, constructing and equipping the City's waterworks and water supply.

On June 21, 1999 Council passed Ordinance 99-3279 to declare the need to renew the existing Parks and Recreation operating levy.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY
GOVERNMENT AUDITING STANDARDS

City Council
City of Pataskala
430 South Main Street
Pataskala, Ohio 43062

We have audited the general-purpose financial statements of the City of Pataskala, Licking County, Ohio, (the City) as of and for the year ended December 31, 1998 and have issued our report thereon dated August 31, 1999, wherein we noted the City changed its method of accounting to report on generally accepted accounting principles and that land in the General Fixed Asset Account Group was not properly valued in accordance with generally accepted accounting principles. We conducted our audit in accordance with generally accepted auditing standards 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'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*. These instances of noncompliance are described in the accompanying schedule of findings as items 1998-20645-001 and 1998-20645-002. We also noted certain immaterial instances of noncompliance, which we have reported to management of the City in a separate letter dated August 31, 1999.

Internal Control Over Financial Reporting

In planning our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 judgement, could adversely effect the Village's ability to record, process, summarize, and report financial data consist with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as items 1998-20645-003 through 1998-20645-005.

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 the 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 considered to be material weaknesses. However, we consider item 1998-20643-003 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 District in a separate letter dated August 31, 1999.

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

JIM PETRO
Auditor of State

August 31, 1999

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1998

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

Finding Number	**1998-20645-001**

Purchase Orders

Ohio Rev. Code Section 5705.41 (D) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached a fiscal officer's certificate. The fiscal officer must certify that the amount required to meet such commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriated fund and free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

This section also provided an exception to the above requirements:

> "Then and Now" Certificate- If no certification is furnished as required, upon receipt of the fiscal officer's certificate that sufficient sum was both at the time of contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the taxing authority may authorize the issuance of a warrant in payment of the amount due upon such contract, but such authorization requires a resolution or ordinance to be passed within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of Council.

Ninety percent of the non-payroll transactions tested did not contain the fiscal officer's certificate. No "then and now" certificates were issued.

We recommend that purchase orders be created and certified before any obligations are incurred. In isolated cases, wherein purchase orders cannot be created before the obligation date, "then and now" certificates should be used in accordance with Ohio Rev. Code Section 5705.41(D).

Finding Number	**1998-20645-002**

Auditing Departments of Entity

Ohio Revised Code Section 733.12 states that at the end of each fiscal year, or more often if required by legislative authority of the municipal corporation, the clerk-treasurer (fiscal officer) shall audit the accounts of all officers and departments. The clerk shall prescribe the form of accounts and reports to be rendered to his department and the form and method of keeping accounts by all other departments and, subject to the powers and duties of the of the auditor of state, shall have the inspection and revision thereof. The City does not reconcile departmental activities to those recorded by the clerk-treasurer. Neglecting to perform a reconciliation may result in monies owed to the City not being collected.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

Finding Number	1998-20645-002 (Continued)

Auditing Departments of Entity (Continued)

We recommend the clerk-treasurer, or their designee, periodically review department records and compare the documented financial activity of the department to the reported activity presented on the City's general ledger. This can be accomplished by randomly selecting department duplicate receipt for comparison to the subsidiary ledger posting, then comparing this amount to the pay-in and the corresponding deposit, for agreement with the amounts reported to the clerk-treasurer. Also, observe department records to ensure they are maintained in the form and method established by Council. Any discrepancies should be investigated and brought to the attention of Council. In addition, someone independent of the billing and collection process should review the billings and any delinquent lists.

MATERIAL INTERNAL CONTROL WEAKNESS

Finding Number	1998-20645-003

Fixed Assets Listing

The City's land values were presented in the general fixed asset account group at an assessed value reported by the Licking County auditor, at May, 1998. This was the City's estimate of its land historical cost. Assessed value is an extrapolated amount from an actuarial's determination on the land's market value at the time of review. Thirty-five percent of the market value is said to be the 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.

Generally accepted accounting principles (GAAP) requires that governmental assets be valued at cost or estimated cost.

We recommend that the City locate the applicable deeds for the land in order to properly value it in accordance with applicable accounting principles. (Also, reference Finding 1998-20645-005)

REPORTABLE CONDITIONS

Finding Number	1998-20645-004

Segregation of Duties-

Utility Department- Standing Data File, Depositing, General Ledger Postings

The Utility Department did not have adequate segregation-of-duties. The Utility Clerk made changes to the master file by adding customers, changing customer information (ie. Name, billing address), and making rate changes), performing daily department functions, collecting cash, posting payments to the system, and filling out deposit slips. The Clerk-Treasurer did take the daily deposits to the bank and then reconcile the bank account; however, the Utility Department records were not reconciled to the City's ledgers. (Reference finding number 1998-20645-002)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

REPORTABLE CONDITIONS

Finding Number	1998-20645-004 (Continued)

Segregation of Duties-(Continued)

Financial Application-Vendor File

The Utilities Clerk and Clerk-Treasurer made changes to the vendor standing data file without any approval or authorization by management. Someone independent of the process should review the master file changes. The lack of approval or review , by management, could lead to fictitious vendors being established and consequently expenditures to them going undetected .

We recommend the Utility Manager review all master file changes for accuracy and unusual and frequent entries; any detected should be investigated. Utility deposits should be reviewed, as well by the Utility Manager before submission to the Clerk-Treasurer and compared to the system generated reports reflecting comparative financial activity for the deposit period.

We also recommend the Clerk-Treasurer assign the responsibility of vendor file changes to an employee under her supervision. The Clerk-Treasurer should review these changes for accuracy.

Finding Number	1998-20645-005

Fixed Asset Acquisition/Disposal Forms

The City does not currently utilize asset acquisition/disposal forms for the addition, disposition, or transfer of assets from location to location. The form provides a source documentation as well as authorization for entering and/or deleting assets from the fixed asset listing and enhances the City's ability to track assets. A complete fixed asset listing was compiled by an asset valuation firm in August of 1998; however, the City did not update the listing for additions, dispositions, or transfers so that a complete fixed asset listing could be maintained and properly reported. We noted several assets that were not included in the listing.

We recommend the City begin utilizing asset disposition forms to track fixed asset movement within the City. Asset addition forms with the purchase price recorded thereon can be reconciled to the capital expenditure line item to ensure completeness and accuracy of the assets added. The list should include all assets of the City including serial and model numbers by location.

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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
MARCH 23, 2000