

**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

Basic Financial Statements
(Audited)

For The Year Ended
December 31, 2004

JERRY ISLER, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

Members of Council and Mayor
City of Gahanna
200 South Hamilton Road
Gahanna, Ohio 43230

We have reviewed the *Independent Auditor's Report* of the City of Gahanna, Franklin County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 to December 31, 2004. 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 Gahanna is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

October 24, 2005

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**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor's Report

Members of Council and Mayor
City of Gahanna
200 South Hamilton Road
Gahanna, OH 43230

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, Franklin County, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gahanna's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

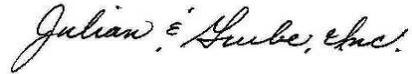
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and respective budgetary comparisons for the general fund and miscellaneous lease receipts special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the City implemented GASB Technical Bulletin No. 2004-2. In addition, the City had prior period adjustments for an overstatement of cash, deferred revenue related to the City's capital lease receivable and capital assets not valued properly.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 4, 2005, on our consideration of the City of Gahanna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Independent Auditor's Report
City of Gahanna
Page 2

The management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Julian & Grube, Inc.
August 4, 2005

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2004
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gahanna's discussion and analysis of the annual financial report provides a review of the financial performance for the year ended December 31, 2004.

FINANCIAL HIGHLIGHTS

- ' The City's total net assets increased \$2,314,617. Revenues of Governmental Activities exceeded expenses by \$1,666,202. Net assets of Business-Type Activities increased by \$648,415.
- ' General revenues and transfers of Governmental Activities accounted for \$18,114,824 or 77.70 percent of all governmental revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$5,195,786 or 22.30 percent of total governmental revenues and transfers of \$23,310,610.
- ' Enterprise funds reflected a total operating income of \$710,466. The Water Fund reflected an operating loss of \$180,742, while the Sewer Fund reflected an operating income of \$891,208, due to higher revenue received for capacity charges.
- ' The City had \$21,644,408 in expenses related to Governmental Activities. \$5,195,786 of these expenses were offset by program specific charges for services, grants, contributions and interest. General revenues (primarily income taxes) and transfers of \$18,114,824 were more than adequate to provide for these programs. The City had \$8,302,424 in expenses related to Business-Type Activities, which were offset entirely by program specific charges for services.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Gahanna's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. The fund financial statements provide the next level of detail. For Governmental Funds, these statements tell how services were financed in the short-term, as well as the amount of funds available for future spending. The fund financial statements focus on the City's most significant funds, with all other nonmajor funds presented in total in one column.

REPORTING THE CITY AS A WHOLE

Statement of Net Assets and the Statement of Activities

The analysis of the City as a whole begins with the Statement of Net Assets and the Statement of Activities. These statements provide information that will help the reader to determine if the City of Gahanna is financially better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities.

Governmental Activities – Most of the City's services are reported here including police, public health, leisure time activities, community development, transportation, and general government.

Business-Type Activities – These services include water and sewer. Service fees for these operations are charged based upon the amount of usage. The intent is that the fees charged recoup operational costs.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page 9. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by state law and bond covenants. Other funds may be established by the Director of Finance, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City of Gahanna's major funds are the General Fund, the Miscellaneous Lease Receipts Special Revenue Fund, the Capital Improvement Capital Project Fund, and the Water, and Sewer Enterprise Funds.

Governmental Funds – Most of the City's services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between Governmental Activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental Funds is reconciled in the financial statements.

Enterprise Funds – When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in Proprietary Funds. Proprietary Funds use the same basis of accounting as Business-Type Activities; therefore, these statements will essentially match.

THE CITY AS A WHOLE

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2004 compared to 2003.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and Other Assets	\$40,447,783	\$38,256,704	\$15,699,720	\$16,313,865	\$56,147,503	\$54,570,569
Nondepreciable Capital Assets	19,044,651	16,979,024	144,972	668,446	19,189,623	17,647,470
Depreciable Capital Assets, Net	36,962,763	41,173,984	41,794,332	41,221,491	78,757,095	82,395,475
Total Assets	96,455,197	96,409,712	57,639,024	58,203,802	154,094,221	154,613,514
Liabilities						
Current and Other Liabilities	5,483,104	5,491,708	1,391,125	1,658,535	6,874,229	7,150,243
Long-Term Liabilities: Due Within One Year	2,260,383	934,254	364,195	185,177	2,624,578	1,119,431
Due in More Than One Year	2,618,598	2,224,436	837,490	665,461	3,456,088	2,889,897
Total Liabilities	10,362,085	8,650,398	2,592,810	2,509,173	12,954,895	11,159,571
Net Assets						
Invested in Capital Assets, Net Of Related Debt	52,264,365	56,231,561	40,737,619	41,052,447	93,001,984	97,284,008
Restricted for:						
Capital Outlay	3,360,815	3,088,848	0	0	3,360,815	3,088,848
Debt Service	1,272,938	1,263,190	0	0	1,272,938	1,263,190
Other Purposes	6,443,488	4,526,695	0	0	6,443,488	4,526,695
Unrestricted	22,751,506	22,649,020	14,308,595	14,642,182	37,060,101	37,291,202
Total Net Assets	\$86,093,112	\$87,759,314	\$55,046,214	\$55,694,629	\$141,139,326	\$143,453,943

Total net assets increased \$2,314,617. Net assets of the City's Governmental Activities increased by \$1,666,202 with unrestricted net assets decreasing \$102,486.

The net assets of the City's Business-Type Activities increased by \$648,415. The City strives to control operation expenses for Business-Type Activities in order to maintain stability in charges for services and to closely monitor the trends of the growing community in order to adjust for budgetary issues and changes in City code where necessary. The City has adjusted rates based on the increases made by the City of Columbus.

Table 2 shows changes in net assets for the year ended December 31, 2004.

	Table 2 Changes In Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	Restated 2003	2004	Restated 2003	2004	Restated 2003	2004
Revenues						
Program Revenues:						
Charges for Services	\$1,950,060	\$2,310,101	\$8,820,673	\$8,938,266	\$10,770,733	\$11,248,367
Operating Grants, Contributions And Interest	2,285,268	2,508,685	0	0	2,285,268	2,508,685
Capital Grants, Contributions And Interest	115,455	377,000	0	0	115,455	377,000
Total Program Revenues	4,350,783	5,195,786	8,820,673	8,938,266	13,171,456	14,134,052
General Revenues:						
Property Taxes	1,739,747	1,764,559	0	0	1,739,747	1,764,559
Municipal Income Taxes	12,281,635	12,740,112	0	0	12,281,635	12,740,112
Other Local Taxes	657,434	657,454	0	0	657,434	657,454
Grants and Entitlements Not Restricted To Specific Programs	3,777,262	2,118,633	0	0	3,777,262	2,118,633
Unrestricted Investment Earnings	742,365	761,173	0	0	742,365	761,173
Gain On Sale Of Capital Assets	0	12,044	0	0	0	12,044
Other	174,219	50,849	20,839	22,573	195,058	73,422
Total General Revenues	19,372,662	18,104,824	20,839	22,573	19,393,501	18,127,397
Total Revenues	23,723,445	23,300,610	8,841,512	8,960,839	32,564,957	32,261,449
Program Expenses:						
Security of Persons						
And Property	6,124,195	6,791,784	0	0	6,124,195	6,791,784
Public Health	154,330	154,337	0	0	154,330	154,337
Leisure Time Activities	1,727,123	1,826,911	0	0	1,727,123	1,826,911
Community Development	2,426,009	3,335,156	0	0	2,426,009	3,335,156
Basic Utility Service	704,074	836,037	0	0	704,074	836,037
Transportation	3,369,875	4,517,481	0	0	3,369,875	4,517,481
General Government	2,247,575	4,023,825	0	0	2,247,575	4,023,825
Interest and						
Fiscal Charges	228,456	158,877	0	0	228,456	158,877
Water	0	0	3,276,839	3,698,541	3,276,839	3,698,541
Sewer	0	0	3,950,308	4,603,883	3,950,308	4,603,883
Total Expenses	16,981,637	21,644,408	7,227,147	8,302,424	24,208,784	29,946,832
Increase in Net Assets						
Before Transfers	6,741,808	1,656,202	1,614,365	658,415	8,356,173	2,314,617
Transfers	(26,397)	10,000	26,397	(10,000)	0	0
Increase in Net Assets	\$6,715,411	\$1,666,202	\$1,640,762	\$648,415	\$8,356,173	\$2,314,617

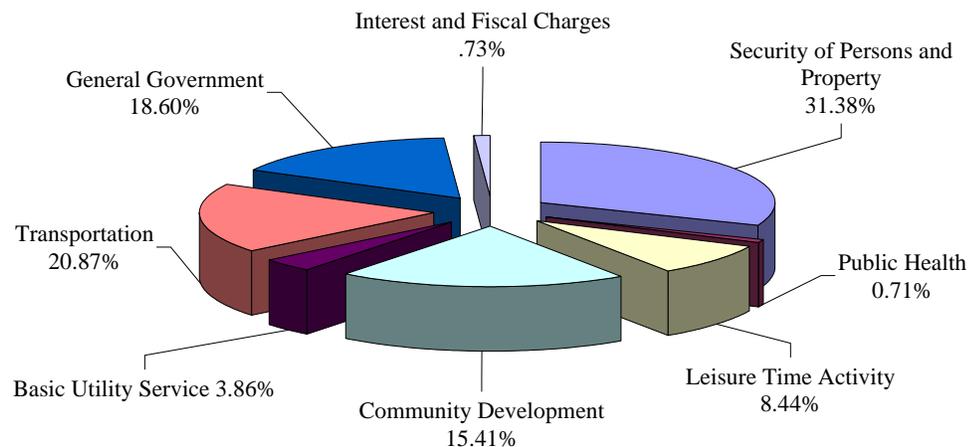
Governmental Activities

The 1.5 % income tax is the largest source of revenue for the General Fund and the City of Gahanna. Employee withholding from all businesses contributes 67.0% of the revenue received in 2004 with business earnings contributing 8.7% and individuals contributing 24.3%. The City provides 83 1/3% tax credit for taxes paid to another municipality and an exemption for residents under the age of 18.

Since 1992, income tax revenue has increased annually an average of 10.97%. During 2003 and 2004, a few of Gahanna's employers went through reorganization and downsizing. However, other companies expanded and new businesses were added to the economic base.

Administration and Council has a quality of life commitment to the citizens and businesses located in Gahanna. With this in mind, Council committed through appropriations in 2004 \$33,973,596 from governmental and business sources including federal and state grants for capital assets, equipment, and related repairs. These assets included street reconstruction, street resurfacing, sidewalk replacements, safety and street maintenance equipment and vehicles, as well as park and recreation equipment.

Governmental program expenses for 2004 were as follows:



Citizen safety and well-being is emphasized in our family-oriented community, as indicated above.

When looking at the sources of income to support Governmental Activities, it should be noted that charges for services are only 9.91% of revenue. Revenues provided by sources other than City residents in the form of operating and capital contributions and interest comprise another 12.38%. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

Business-Type Activities

The City's Business-Type Activities include water and sewer services.

Water treatment and facility repair services are contracted with the City of Columbus through a master meter contract and are paid for through user fees billed by the City of Gahanna to Gahanna residents and businesses. The City of Gahanna has its own user fee that is incorporated in the billing. This revenue is used to pay for the necessary level of staffing required to complement the contracted services, debt service on water system improvements and to fund system improvements and depreciation. The City of Gahanna also collects a tap fee each time a new tap to the system is made, which funds a portion of system repair and replacement. Gahanna owns the infrastructure necessary to furnish services to their citizens and is responsible for major reconstruction and extension of new service within the community.

Sewer treatment is contracted with the City of Columbus and is paid for through user fees billed by the City of Gahanna to Gahanna residents and businesses. The City of Gahanna has its own user fee that is incorporated in the billing. This revenue is used to pay for the necessary level of staffing required to complement the contracted services, debt service on sanitary sewer system improvements, and to fund system improvements and depreciation. The City of Gahanna also collects a tap fee each time a new tap to the system is made which funds a portion of system repair and replacement. Gahanna owns and maintains the infrastructure necessary to furnish services to their citizens and is responsible for major reconstruction and extension of new service within the community.

THE CITY'S FUNDS

Information about the City's major Governmental Funds begins on page 15. These funds are reported using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$23,231,960 and expenditures of \$25,483,854. The General Fund balance decreased \$1,374,376.

The Capital Improvement fund balance decreased \$438,090. From this fund, numerous projects were completed and paid for during the year, while other projects were started.

The Miscellaneous Lease Receipts fund balance increased \$105,923, due to rent received related to capital leases receivable.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements, and encumbrances. The City's budget is adopted on a fund basis. Before the budget is adopted, Council reviews detailed budget worksheets of each function within the General fund and then adopts the budget on a fund basis. During 2004, the City amended its General Fund budget as needed. The net effect of the revisions was an increase in the appropriations of \$7,049,692. As various projects were bid, additional funds were needed due to cost increases and expansion of the scope of services. Furthermore, the City was presented the opportunity to purchase land not previously for sale. Included in this amount is the City's \$3.1 million cash commitment for the Creekside project. This amount was appropriated and encumbered in 2004, but will not be spent until 2005.

There was very little change in revenue amounts reflected in the original and final budget as well as with actual received for the year.

The City's ending unobligated cash balance was \$2,586,501 above final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004, the City had \$58,153,008 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$2,145,594, or more than 3 percent from prior year. Increases in capital assets include land purchases, routine machinery and equipment purchases, and infrastructure improvements. Disposal of capital assets included various pieces of machinery and equipment and vehicles. The increase in capital assets is the result of additions exceeding deletions for the year.

The City also had \$41,889,937 invested in capital assets (net of accumulated depreciation) for business-type activities, a decrease of \$49,376, or less than 1 percent from the prior year. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

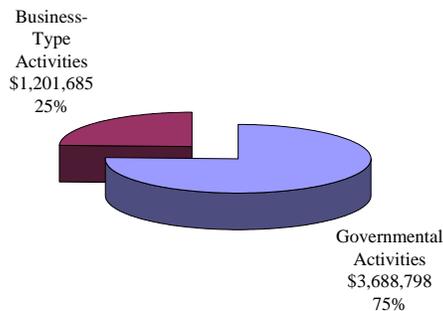
See Note 9 of the Basic Financial Statements for more detailed information.

Debt

At December 31, 2004, the City of Gahanna had \$2,727,490 in debt outstanding.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities	
	2003	2004	2003	2004
General Obligation Bonds	\$2,300,000	\$1,890,000	\$1,100,000	\$745,000
OPWC Loans Payable	0	0	101,685	92,490
Promissory Notes	1,388,798	0	0	0
Total	\$3,688,798	\$1,890,000	\$1,201,685	\$837,490



All general obligation bond issues will be paid through the Debt Service Fund with General Fund revenues. The Water Fund's general obligation bonds are paid from operating revenues of the Water Fund. The OPWC loans will be paid from Sewer Fund operating revenue.

The City's overall 10.5 percent legal debt margin was \$85,560,221 as of December 31, 2004. The more restrictive unvoted legal debt margin within 5.5 percent was \$45,554,241 as of the same date. See Note 14 of the notes to the basic financial statements for more detailed information.

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jerry Isler, Director of Finance, City of Gahanna, 200 South Hamilton Road, Gahanna, Ohio 43230.

City of Gahanna, Ohio
Statement Of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity In Pooled Cash And Cash Equivalents	\$29,126,077	\$13,871,266	\$42,997,343
Accrued Interest Receivable	123,994	0	123,994
Accounts Receivable	439,109	2,400,041	2,839,150
Municipal Income Tax Receivable	3,696,426	0	3,696,426
Due From Other Governments	1,853,311	0	1,853,311
Prepaid Items	80,017	11,014	91,031
Materials And Supplies Inventory	180,803	29,400	210,203
Property And Other Local Taxes Receivable	1,969,766	0	1,969,766
Special Assessments Receivable	0	2,144	2,144
Capital Leases Receivable	787,201	0	787,201
Land And Construction In Progress	16,979,024	668,446	17,647,470
Depreciable Capital Assets, Net	41,173,984	41,221,491	82,395,475
Total Assets	96,409,712	58,203,802	154,613,514
<u>Liabilities:</u>			
Accounts Payable	692,066	8,279	700,345
Contracts Payable	304,574	126,818	431,392
Retainage Payable	14,788	8,289	23,077
Due To Other Governments	1,819,532	1,509,119	3,328,651
Deferred Revenue	2,537,563	0	2,537,563
Accrued Interest Payable	26,109	3,446	29,555
Compensatory Time Payable	97,076	2,584	99,660
Long-Term Liabilities:			
Due Within One Year	934,254	185,177	1,119,431
Due In More Than One Year	2,224,436	665,461	2,889,897
Total Liabilities	8,650,398	2,509,173	11,159,571
<u>Net Assets:</u>			
Invested In Capital Assets, Net Of Related Debt Restricted For:	56,231,561	41,052,447	97,284,008
Capital Projects	3,088,848	0	3,088,848
Debt Service	1,263,190	0	1,263,190
Other Purposes	4,526,695	0	4,526,695
Unrestricted	22,649,020	14,642,182	37,291,202
Total Net Assets	\$87,759,314	\$55,694,629	\$143,453,943

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Activities
For the Year Ended December 31, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants, Contributions and Interest</u>
<u>Governmental Activities:</u>				
Security Of Persons And Property	\$6,791,784	\$71,801	\$40,942	\$0
Public Health	154,337	0	0	0
Leisure Time Activities	1,826,911	668,736	1,665	0
Community Development	3,335,156	532,931	0	0
Basic Utility Services	836,037	243,107	0	0
General Government	4,023,825	563,172	951,422	0
Transportation	4,517,481	230,354	1,514,656	377,000
Interest And Fiscal Charges	158,877	0	0	0
<i>Total Governmental Activities</i>	<u>21,644,408</u>	<u>2,310,101</u>	<u>2,508,685</u>	<u>377,000</u>
<u>Business-Type Activities:</u>				
Water	3,698,541	3,447,544	0	0
Sewer	4,603,883	5,490,722	0	0
<i>Total Business-Type Activities</i>	<u>8,302,424</u>	<u>8,938,266</u>	<u>0</u>	<u>0</u>
<i>Total Activities</i>	<u>\$29,946,832</u>	<u>\$11,248,367</u>	<u>\$2,508,685</u>	<u>\$377,000</u>

General Revenues:

Property Taxes Levied For:
 General Purposes
 Debt Service
 Police
Municipal Income Taxes Levied For General Purposes
Other Local Taxes
Grants And Entitlements Not Restricted To Specific Programs
Unrestricted Investment Earnings
Gain On Sale Of Capital Assets
Other

Transfers

Total General Revenues And Transfers

Change In Net Assets

Net Assets Beginning of Year - Restated (See Note 3)

Net Assets End Of Year

See Accompanying Notes To The Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$6,679,041)	\$0	(\$6,679,041)
(154,337)	0	(154,337)
(1,156,510)	0	(1,156,510)
(2,802,225)	0	(2,802,225)
(592,930)	0	(592,930)
(2,509,231)	0	(2,509,231)
(2,395,471)	0	(2,395,471)
(158,877)	0	(158,877)
<u>(16,448,622)</u>	<u>0</u>	<u>(16,448,622)</u>
0	(250,997)	(250,997)
0	886,839	886,839
<u>0</u>	<u>635,842</u>	<u>635,842</u>
<u>(16,448,622)</u>	<u>635,842</u>	<u>(15,812,780)</u>
1,326,082	0	1,326,082
224,889	0	224,889
213,588	0	213,588
12,740,112	0	12,740,112
657,454	0	657,454
2,118,633	0	2,118,633
761,173	0	761,173
12,044	0	12,044
50,849	22,573	73,422
10,000	(10,000)	0
<u>18,114,824</u>	<u>12,573</u>	<u>18,127,397</u>
1,666,202	648,415	2,314,617
<u>86,093,112</u>	<u>55,046,214</u>	<u>141,139,326</u>
<u><u>\$87,759,314</u></u>	<u><u>\$55,694,629</u></u>	<u><u>\$143,453,943</u></u>

City of Gahanna, Ohio
Balance Sheet
Governmental Funds
December 31, 2004

	General	Miscellaneous Lease Receipts	Capital Improvement	Nonmajor Funds	Total Governmental Funds
<u>Assets:</u>					
Equity In Pooled Cash And Cash Equivalents	\$19,949,843	\$728,577	\$2,704,284	\$5,743,373	\$29,126,077
Receivables:					
Property And Other Local Taxes	1,513,463	0	0	456,303	1,969,766
Municipal Income Tax	3,696,426	0	0	0	3,696,426
Accounts	424,062	15,047	0	0	439,109
Accrued Interest	123,994	0	0	0	123,994
Due From Other Governments	1,093,082	0	0	760,229	1,853,311
Materials And Supplies Inventory	180,803	0	0	0	180,803
Prepaid Items	75,979	0	0	4,038	80,017
Capital Leases Receivable	0	787,201	0	0	787,201
Total Assets	\$27,057,652	\$1,530,825	\$2,704,284	\$6,963,943	\$38,256,704
<u>Liabilities And Fund Balances</u>					
<u>Liabilities:</u>					
Accounts Payable	\$669,471	\$0	\$0	\$22,595	\$692,066
Contracts Payable	214,352	0	0	90,222	304,574
Retainage Payable	5,000	0	0	9,788	14,788
Due To Other Governments	1,642,976	0	0	176,556	1,819,532
Deferred Revenue	4,990,337	802,248	0	1,095,343	6,887,928
Total Liabilities	7,522,136	802,248	0	1,394,504	9,718,888
<u>Fund Balances:</u>					
Reserved For Encumbrances	7,911,283	0	221,965	816,748	8,949,996
Unreserved:					
Designated:					
Designated For Sick/Vacation Leave	1,488,346	0	0	0	1,488,346
Undesignated, Reported In:					
General Fund	10,135,887	0	0	0	10,135,887
Special Revenue Funds	0	728,577	0	3,105,009	3,833,586
Debt Service Funds	0	0	0	1,263,118	1,263,118
Capital Projects Funds	0	0	2,482,319	384,564	2,866,883
Total Fund Balances	19,535,516	728,577	2,704,284	5,569,439	28,537,816
Total Liabilities And Fund Balances	\$27,057,652	\$1,530,825	\$2,704,284	\$6,963,943	\$38,256,704

See Accompanying Notes to the Basic Financial Statements

City of Gahanna, Ohio
 Reconciliation Of Total Governmental Fund Balances To
 Net Assets Of Governmental Activities
 December 31, 2004

Total Governmental Fund Balances \$28,537,816

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	14,131,919
Construction In Progress	2,847,105
Other Capital Assets	88,164,046
Accumulated Depreciation	<u>(46,990,062)</u>

Total 58,153,008

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	105,587
Other Local Taxes	14,080
Municipal Income Taxes	2,528,741
Accounts Receivable	28,214
Accrued Interest	90,076
Intergovernmental	<u>1,583,667</u>

Total 4,350,365

Some liabilities, including bonds payable, leases payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

Accrued Interest	(26,109)
General Obligation Bonds	(1,890,000)
Capital Leases Payable	(31,447)
Compensated Absences	(1,237,243)
Compensatory Time Payable	<u>(97,076)</u>

Total (3,281,875)

Net Assets Of Governmental Activities \$87,759,314

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds
For The Year Ended December 31, 2004

	General	Miscellaneous Lease Receipts	Capital Improvement	Nonmajor Funds	Total Governmental Funds
<u>Revenues:</u>					
Property Taxes	\$1,334,434	\$0	\$0	\$441,200	\$1,775,634
Municipal Income Taxes	12,690,207	0	0	0	12,690,207
Other Local Taxes	631,465	0	0	23,893	655,358
Intergovernmental	2,944,088	0	0	2,053,594	4,997,682
Charges For Services	945,765	0	0	0	945,765
Licenses And Permits	583,501	0	0	211,123	794,624
Fines And Forfeitures	375,770	0	0	53,530	429,300
Interest	845,356	0	0	0	845,356
Decrease In Fair Value Of Investments	(87,962)	0	0	0	(87,962)
Rent	20,152	105,923	0	0	126,075
Contributions And Donations	7,266	0	0	0	7,266
Miscellaneous	52,447	0	0	208	52,655
Total Revenues	20,342,489	105,923	0	2,783,548	23,231,960
<u>Expenditures:</u>					
Current Operations And Maintenance:					
Security Of Persons And Property	5,600,383	0	0	867,230	6,467,613
Public Health	154,337	0	0	0	154,337
Leisure Time Activities	1,483,127	0	0	0	1,483,127
Community Development	2,636,345	0	0	215,872	2,852,217
Basic Utility Services	125,374	0	0	516,290	641,664
General Government	3,199,470	0	0	172,668	3,372,138
Transportation	1,053,232	0	0	847,101	1,900,333
Capital Outlay	4,249,911	0	796,990	1,593,786	6,640,687
Debt Service:					
Principal Retirement	1,411,602	0	0	410,000	1,821,602
Interest And Fiscal Charges	20,973	0	0	129,163	150,136
Total Expenditures	19,934,754	0	796,990	4,752,110	25,483,854
Excess Of Revenues Over (Under) Expenditures	407,735	105,923	(796,990)	(1,968,562)	(2,251,894)
<u>Other Financing Sources (Uses):</u>					
Proceeds From Sale Of Capital Assets	6,650	0	0	0	6,650
Transfers In	10,000	0	358,900	1,439,861	1,808,761
Transfers Out	(1,798,761)	0	0	0	(1,798,761)
Total Other Financing Sources (Uses)	(1,782,111)	0	358,900	1,439,861	16,650
Net Change In Fund Balance	(1,374,376)	105,923	(438,090)	(528,701)	(2,235,244)
Fund Balances At Beginning Of Year - Restated (See Note 3)	20,909,892	622,654	3,142,374	6,098,140	30,773,060
Fund Balances At End Of Year	\$19,535,516	\$728,577	\$2,704,284	\$5,569,439	\$28,537,816

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
 Reconciliation Of The Statement Of Revenues, Expenditures And Changes
 In Fund Balances Of Governmental Funds To The Statement Of Activities
 For the Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds (\$2,235,244)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Asset Additions	5,036,285	
Construction In Progress Additions	782,195	
Depreciation	<u>(3,516,913)</u>	
Excess Of Capital Outlay Over Depreciation Expense		2,301,567

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each sale:

Proceeds From Sale Of Fixed Assets	(6,650)	
Gain On Disposal Of Capital Assets	<u>12,044</u>	
		5,394

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets. (161,367)

Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

General Obligation Bond Principal Payments	410,000	
Capital Lease Principal Payments	22,804	
Long-Term Note Principal Payments	<u>1,388,798</u>	
		1,821,602

Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts this year:

Property Taxes	(11,075)	
Other Local Taxes	2,096	
Municipal Income Taxes	49,905	
Accounts Receivable	12,531	
Interest	3,779	
Intergovernmental	<u>(630)</u>	
		56,606

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the statement of activities is the result of the following:

Net Increase In Accrued Interest (8,741)

Some items reported as expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

These activities consist of:

Increase In Compensated Absences	(101,311)	
Increase In Compensatory Time Payable	<u>(12,304)</u>	
		<u>(113,615)</u>

Change In Net Assets Of Governmental Activities \$1,666,202

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual
(Non-GAAP Budgetary Basis)
General Fund
For The Year Ended December 31, 2004

	Original Budget	Revised Budget	Budgetary Actual	Variance Positive (Negative)
<u>Revenues:</u>				
Property Taxes	\$1,313,765	\$1,313,765	\$1,334,434	\$20,669
Municipal Income Taxes	11,270,901	13,174,533	12,579,751	(594,782)
Other Local Taxes	556,005	698,142	620,572	(77,570)
Intergovernmental	2,747,782	2,201,306	3,100,154	898,848
Charges For Services	1,801,438	1,910,980	869,694	(1,041,286)
Licenses And Permits	522,823	515,409	583,536	68,127
Fines And Forfeitures	335,491	382,031	374,450	(7,581)
Interest	757,448	546,772	845,408	298,636
Rent	32,323	34,908	36,076	1,168
Contributions And Donations	0	0	7,266	7,266
Miscellaneous	74,913	28,534	52,859	24,325
<i>Total Revenues</i>	<u>19,412,889</u>	<u>20,806,380</u>	<u>20,404,200</u>	<u>(402,180)</u>
<u>Expenditures:</u>				
Current Operations And Maintenance:				
Security Of Persons And Property	6,211,527	6,318,260	5,962,367	355,893
Public Health	155,000	155,000	154,337	663
Leisure Time Activities	1,603,104	1,736,759	1,656,481	80,278
Community Development	4,467,755	4,828,734	4,109,911	718,823
Basic Utility Services	1,354,259	1,354,881	254,053	1,100,828
General Government	4,375,898	4,516,474	4,147,769	368,705
Transportation	1,435,306	1,512,086	1,409,492	102,594
Capital Outlay	6,712,005	11,035,843	10,788,396	247,447
Debt Service:				
Principal Retirement	107,600	1,388,798	1,388,798	0
Interest And Fiscal Charges	936	13,746	13,746	0
<i>Total Expenditures</i>	<u>26,423,390</u>	<u>32,860,581</u>	<u>29,885,350</u>	<u>2,975,231</u>
Excess Of Revenues Under Expenditures	<u>(7,010,501)</u>	<u>(12,054,201)</u>	<u>(9,481,150)</u>	<u>2,573,051</u>
<u>Other Financing Sources (Uses):</u>				
Proceeds From Sale Of Capital Assets	0	500	6,650	6,150
Transfers In	711,000	541,000	548,300	7,300
Transfers Out	(1,186,260)	(1,798,761)	(1,798,761)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(475,260)</u>	<u>(1,257,261)</u>	<u>(1,243,811)</u>	<u>13,450</u>
Net Change In Fund Balance	(7,485,761)	(13,311,462)	(10,724,961)	2,586,501
Fund Balance At Beginning Of Year	13,761,643	13,761,643	13,761,643	0
Prior Year Encumbrances	7,583,487	7,583,487	7,583,487	0
<i>Fund Balance At End Of Year</i>	<u>\$13,859,369</u>	<u>\$8,033,668</u>	<u>\$10,620,169</u>	<u>\$2,586,501</u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual
(Non-GAAP Budgetary Basis)
Miscellaneous Lease Receipts Special Revenue Fund
For The Year Ended December 31, 2004

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Budgetary Actual</u>	Variance Positive (Negative)
<u>Revenues:</u>				
Rent	\$105,000	\$105,000	\$105,923	\$923
<u>Expenditures:</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change In Fund Balance	105,000	105,000	105,923	923
Fund Balance At Beginning Of Year	<u>622,654</u>	<u>622,654</u>	<u>622,654</u>	<u>0</u>
<i>Fund Balance At End Of Year</i>	<u><u>\$727,654</u></u>	<u><u>\$727,654</u></u>	<u><u>\$728,577</u></u>	<u><u>\$923</u></u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Fund Net Assets
Enterprise Funds
December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets:</u>			
<u>Current Assets:</u>			
Equity In Pooled Cash And			
Cash Equivalents	\$6,344,568	\$7,526,698	\$13,871,266
Accounts Receivable	893,030	1,507,011	2,400,041
Prepaid Items	5,507	5,507	11,014
Materials And Supplies Inventory	14,700	14,700	29,400
Special Assessments Receivable	2,144	0	2,144
<i>Total Current Assets</i>	<u>7,259,949</u>	<u>9,053,916</u>	<u>16,313,865</u>
<u>Non-current Assets:</u>			
Land And Construction In Progress	244,136	424,310	668,446
Depreciable Capital Assets, Net	25,932,569	15,288,922	41,221,491
<i>Total Non-current Assets</i>	<u>26,176,705</u>	<u>15,713,232</u>	<u>41,889,937</u>
<i>Total Assets</i>	<u>33,436,654</u>	<u>24,767,148</u>	<u>58,203,802</u>
<u>Liabilities:</u>			
<u>Current Liabilities:</u>			
Accounts Payable	2,979	5,300	8,279
Contracts Payable	0	126,818	126,818
Retainage Payable	0	8,289	8,289
Due To Other Governments	635,417	873,702	1,509,119
Accrued Interest Payable	3,446	0	3,446
Compensated Absences Payable	329	329	658
Compensatory Time Payable	1,292	1,292	2,584
General Obligation Bonds Payable	175,000	0	175,000
OPWC Loans Payable	0	9,519	9,519
<i>Total Current Liabilities</i>	<u>818,463</u>	<u>1,025,249</u>	<u>1,843,712</u>
<u>Long-Term Liabilities (Net Of Current Portion):</u>			
Compensated Absences Payable	6,245	6,245	12,490
General Obligation Bonds Payable	570,000	0	570,000
OPWC Loans Payable	0	82,971	82,971
<i>Total Long-Term Liabilities</i>	<u>576,245</u>	<u>89,216</u>	<u>665,461</u>
<i>Total Liabilities</i>	<u>1,394,708</u>	<u>1,114,465</u>	<u>2,509,173</u>
<u>Net Assets:</u>			
Invested In Capital Assets, Net Of Related Debt	25,431,705	15,620,742	41,052,447
Unrestricted	6,610,241	8,031,941	14,642,182
<i>Total Net Assets</i>	<u>\$32,041,946</u>	<u>\$23,652,683</u>	<u>\$55,694,629</u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Revenues, Expenses And Changes In Fund Net Assets
Enterprise Funds
For The Year Ended December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating Revenues:</u>			
Charges For Services	\$3,447,544	\$5,490,722	\$8,938,266
Miscellaneous	22,573	0	22,573
<i>Total Operating Revenues</i>	<u>3,470,117</u>	<u>5,490,722</u>	<u>8,960,839</u>
<u>Operating Expenses:</u>			
Salaries	232,017	230,939	462,956
Fringe Benefits	111,015	111,014	222,029
Purchased Services	2,478,675	3,746,283	6,224,958
Materials And Supplies	110,320	38,793	149,113
Depreciation	636,414	371,574	1,007,988
Other Operating Expenses	82,418	100,911	183,329
<i>Total Operating Expenses</i>	<u>3,650,859</u>	<u>4,599,514</u>	<u>8,250,373</u>
Operating Income (Loss)	(180,742)	891,208	710,466
<u>Non-Operating Expenses:</u>			
Interest And Fiscal Charges	(47,682)	(4,369)	(52,051)
Income (Loss) Before Transfers	(228,424)	886,839	658,415
Transfers Out	(5,000)	(5,000)	(10,000)
Change In Net Assets	(233,424)	881,839	648,415
Net Assets At Beginning Of Year - Restated (See Note 3)	<u>32,275,370</u>	<u>22,770,844</u>	<u>55,046,214</u>
<i>Net Assets At End Of Year</i>	<u><u>\$32,041,946</u></u>	<u><u>\$23,652,683</u></u>	<u><u>\$55,694,629</u></u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Cash Flows
Enterprise Funds
For The Year Ended December 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Increases (Decreases) In Cash And Cash Equivalents:</u>			
<u>Cash Flows From Operating Activities:</u>			
Cash Received From Customers	\$3,281,464	\$5,234,279	\$8,515,743
Cash Payments For Personal Services	(357,830)	(356,756)	(714,586)
Cash Payments To Suppliers For Goods And Services	(2,490,914)	(3,700,357)	(6,191,271)
Cash Payments For Other Operating Expenses	(83,372)	(91,141)	(174,513)
Other Operating Revenues	22,573	0	22,573
Net Cash Provided By Operating Activities	371,921	1,086,025	1,457,946
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers To Other Funds	(5,000)	(5,000)	(10,000)
<u>Cash Flows From Capital And Related Financing Activities:</u>			
Acquisition Of Capital Assets	(367,418)	(470,232)	(837,650)
Principal paid on General Obligation Bonds	(250,000)	(105,000)	(355,000)
Principal Paid On OPWC Loans	0	(9,195)	(9,195)
Interest And Fiscal Charges Paid On General Obligation Bonds	(49,000)	0	(49,000)
Interest And Fiscal Charges Paid On OPWC Loans	0	(6,805)	(6,805)
Net Cash Used For Capital And Related Financing Activities	(666,418)	(591,232)	(1,257,650)
Net Increase (Decrease) In Cash And Cash Equivalents	(299,497)	489,793	190,296
Cash And Cash Equivalents At Beginning Of Year	6,644,065	7,036,905	13,680,970
Cash And Cash Equivalents At End Of Year	\$6,344,568	\$7,526,698	\$13,871,266

(continued)

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Cash Flows
Enterprise Funds
For The Year Ended December 31, 2004
(Continued)

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Reconciliation Of Operating Income (Loss) To Net Cash Provided By Operating Activities:</u>			
Operating Income (Loss)	(\$180,742)	\$891,208	\$710,466
<u>Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:</u>			
Depreciation	636,414	371,574	1,007,988
Changes In Assets And Liabilities:			
Increase In Accounts Receivable	(166,080)	(256,443)	(422,523)
Increase In Prepaid Items	(727)	(727)	(1,454)
Decrease In Materials And Supplies Inventory	64	64	128
Increase (Decrease) In Accounts Payable	(2,952)	3,644	692
Decrease In Accrued Wages Payable	(7,484)	(7,484)	(14,968)
Decrease In Contracts Payable	(1,670)	(71,858)	(73,528)
Increase In Due To Other Governments	101,285	153,945	255,230
Increase In Contracts Retainage Payable	0	8,289	8,289
Decrease In Compensated Absences Payable	(6,175)	(6,175)	(12,350)
Decrease In Compensatory Time Payable	(12)	(12)	(24)
<i>Net Cash Provided By Operating Activities</i>	<u>\$371,921</u>	<u>\$1,086,025</u>	<u>\$1,457,946</u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Fiduciary
Assets And Liabilities
Agency Funds
December 31, 2004

Assets:

Equity In Pooled Cash And Cash Equivalents	\$249,552
Cash and Cash Equivalents In Segregated Accounts	733,073
Accounts Receivable	<u>78,485</u>

Total Assets \$1,061,110

Liabilities:

Accounts Payable	\$7,466
Due to Other Governments	396,795
Undistributed Assets	414,763
Deposits Held And Due To Others	<u>242,086</u>

Total Liabilities \$1,061,110

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Gahanna is a home rule municipal corporation established under the laws of the State of Ohio which operates under its own Charter. The current Charter, which provides for a mayor-council-administrator form of government, was adopted by the electorate June 27, 1961, and was completely renumbered by the Clerk of Council in January, 1992.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, departments and activities which are not legally separate from the City. They comprise the City's legal entity which provides various services including public safety, street maintenance, parks and recreation, senior services, and engineering. The City of Gahanna is also responsible for the construction, maintenance, and repairs associated with the water and sewer lines. The City purchases water and sewer treatment services. Council and the Mayor have direct responsibility for these activities.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. The City has no component units.

The City is a member of the Central Ohio Health Care Consortium (Pool), a risk sharing pool which provides health insurance. The Pool, which commenced business on January 1, 1992, has nine members consisting of various cities, villages and townships. The members originally entered into an irrevocable agreement to remain members of the Pool for a minimum of three years. This agreement was renewed for an additional three years on January 1, 2004. The Pool is governed by a Board of Directors consisting of one director appointed by each member. The Board elects a chairman, a vice chairman and a secretary. The Board is responsible for its own financial matters and the Pool maintains its own books of account. Budgeting and financing of the Pool is subject to the approval of the Board. The City has no explicit and measurable equity interest in the Pool. The City has no ongoing financial responsibility other than the three year minimum membership. See Note 12.

The City participates in a joint operation with the Gahanna Jefferson City School District. These organizations have agreed to construct and operate a maintenance facility and fueling station. See Note 18.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Gahanna have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities or enterprise funds. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business segment is self-financing or draws from the general revenues of the City.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds utilized by the City: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund – This fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the Charter of the City.

Miscellaneous Lease Receipts Fund – This fund accounts for the collection of lease payments and for the cost of maintaining and operating (including the payment of taxes) property.

Capital Improvements Fund – This fund accounts for various road construction and improvement projects within the City. These projects are financed from local resources.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Proprietary Funds

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are enterprise funds.

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

Water Fund – This fund is used to account for the provision of water service to the residents and businesses within the City.

Sewer Fund – This fund is used to account for the provision of sanitary sewer service to the residents and businesses within the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has three agency funds which are used to account for money held for other governments, compliance with building codes, and distribution of mayor's court fines.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement on Net Assets. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fund Financial Statements

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

Like the government-wide statements, all enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; enterprise and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), and grants.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

E. Budgets And Budgetary Accounting

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds. The Director of Finance has been authorized to allocate appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Director of Finance. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as final budgeted amounts represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

F. Cash And Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, except the Mayor's Court agency fund, are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity In Pooled Cash And Cash Equivalents" on the financial statements. The Mayor's Court has its own checking account for the collection and distribution of court fines and forfeitures and is presented on the Statement of Fiduciary Assets and Liabilities as "Cash and Cash Equivalents in Segregated Accounts".

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

During the year, investments were limited to certificates of deposit, U.S. Treasury Notes, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Corporation Bonds, Federal Farm Credit Bank Bonds, Nationwide Platinum Notes, Mutual Funds, and STAROhio. 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, are reported at cost. Mutual funds are reported at fair value which is determined by the mutual fund's current share price.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2004. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$845,356, which includes \$444,211 assigned from other funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported as cash equivalents on the financial statements.

G. Materials And Supplies Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. Capital Assets

General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the Business-Type Activities column of the government-wide Statement of Net Assets and in the respective funds.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

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

<u>Descriptions</u>	<u>Estimated Life</u>
Buildings	50 years
Improvements Other Than Buildings	20 years
Machinery and Equipment:	
Machinery and Equipment	3-30 years
Furniture And Fixtures	20 years
Computers	3-10 years
Vehicles	3-10 years
Sewer And Water Lines	65 years
Infrastructure:	
Bridges And Culverts	50 years
Sidewalks	20 years
Streets And Curbs	20-30 years
Street Lighting	15 years
Storm Sewer	65 years
Traffic Control Lighting	10 years

J. Compensated Absences

Vacation and compensatory benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation and compensatory time when earned for all employees.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

K. Accrued Liabilities And Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, bonds, and capital leases are recognized as liabilities on the governmental fund financial statements when due.

L. Reserves of Fund Balance

Reserves of fund equity in governmental funds indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances. Unreserved fund balance indicates that portion of fund equity that is available for appropriations in future periods.

M. Fund Designations

Fund balance designations are established to indicate tentative planned expenditures of financial resources. A designation reflects the City's intentions and is subject to change. The designation is reported as part of unreserved fund balance. The designation represents monies set-aside for future termination benefits.

N. Interfund Transactions

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The unrelated portion of these liabilities is included in the calculation of unrestricted net assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for recreational activities, improving the living environment of the City, the operation of police programs, and the City's street repair/improvement programs.

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

P. Operating Revenues And Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water and sewer utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as nonoperating.

Q. 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.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

During 2004, accounting changes were discovered and the implementation of GASB Statement No. 39, *“Determining Whether Certain Organizations are Component Units”* and GASB Technical Bulletin No. 2004-2 *“Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liability by Cost-Sharing Employers”* were implemented. The effect of these changes resulted in the following restatements of fund balances/net assets:

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government. The implementation of GASB Statement No. 39 did not affect the presentation of the financial statements.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY *(continued)*

GASB Technical Bulletin No. 2004-02 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost sharing multiple-employer pension and other post-employment benefit (OPEB) plans.

A prior period adjustment is necessary for the overstatement of cash, an intergovernmental payable was unrecorded in the prior year (GASB Technical Bulletin 2004-2), and deferred revenue was adjusted to accurately present the unearned revenue related to the capital lease receivable. The City also discovered that assets were not valued properly. Therefore, beginning balances were adjusted accordingly, as follows:

	General Fund	Non-major Governmental Funds
Fund Balance, December 31, 2003	\$22,422,226	\$6,263,649
Restatement of Intergovernmental Payables	(1,033,705)	(165,509)
Cash Adjustment	(478,629)	0
Fund Balance, December 31, 2003, as Restated	\$20,909,892	\$6,098,140

	Governmental Activities	Business-Type Activities
Net Assets, December 31, 2003	\$86,277,935	\$55,007,451
Cash Adjustment	(478,629)	0
Deferred Revenue Adjustment	(710,636)	0
Restatement of Intergovernmental Payable	(921,794)	0
Restatement of Capital Assets	1,926,236	38,763
Net Assets, December 31, 2003, as Restated	\$86,093,112	\$55,046,214

	Water	Sewer	Total
Net Assets, December 31, 2003	\$32,119,611	\$22,887,840	\$55,007,451
Restatement of Capital Assets	155,759	(116,996)	38,763
Net Assets, December 31, 2003, as Restated	\$32,275,370	\$22,770,844	\$55,046,214

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

While reporting financial position and results of operations on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) is presented for the General Fund and the Miscellaneous Lease Receipts Special Revenue Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (continued)

The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.
- (d) Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General Fund and the Permanent Improvement Special Revenue Fund are as follows:

Net Change in Fund Balance		
	General	Miscellaneous Lease Receipts
GAAP Basis	(1,374,376)	\$105,923
<u>Increases (Decreases) Due To:</u>		
Revenue Accruals	(21,406)	0
Expenditure Accruals	(428,099)	0
Encumbrances Outstanding At Year-End (Budget Basis)	(9,522,497)	0
Change In Fair Value Of Investments - 2004	221,400	0
Change In Fair Value Of Investments - 2003	(133,438)	0
Unrecorded Cash - 2004	(28,577)	0
Unrecorded Cash - 2003	23,732	0
Transfers	538,300	0
Budget Basis	(\$10,724,961)	\$105,923

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the Ohio Revised Code. State statutes classify monies held by the City into three categories.

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

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

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

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 Director of Finance by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS *(continued)*

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

At year-end, the carrying amount of the City's deposits was \$7,536,853, and the bank balance was \$5,009,184. Of the bank balance, \$3,776,252 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions' trust departments in the City's name and 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 Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS *(continued)*

GASB Statement No. 3, “*Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*” requires that local governments disclose the carrying amounts and fair value of investments, classified by risk. The City’s investments are categorized as either (1) insured or registered or for which the securities are held by the City or its agent in the City’s name, (2) uninsured and unregistered for which the securities are held by the counterparty’s trust department or agent in the City’s name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City’s name. The Mutual funds and STAROhio investments are unclassified since they are not evidenced by securities that exist in physical or book form.

	<u>Category 2</u>	<u>Unclassified</u>	<u>Fair Value</u>
U.S. Treasury Notes	\$105,992	\$0	\$105,992
Federal Home Loan Bank Bonds	6,189,120	0	6,189,120
Federal Home Loan Mortgage Corporation Bonds	3,219,421	0	3,219,421
Federal National Mortgage Corporation Bonds	6,202,511	0	6,202,511
Federal Farm Credit Bank Bonds	245,911	0	245,911
Nationwide Platinum Notes	1,040,149	0	1,040,149
Mutual Funds	0	1,834,312	1,834,312
STAROhio	0	17,602,424	17,602,424
Total Investments	<u>\$17,003,104</u>	<u>\$19,436,736</u>	<u>\$36,439,840</u>

The classification of cash and cash equivalents, and investments on the financial 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 classifications of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

	Cash And Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$43,979,968	\$0
Cash on Hand	(3,275)	0
Investments:		
U.S. Treasury Notes	(105,992)	105,992
Federal Home Loan Bank Bonds	(6,189,120)	6,189,120
Federal Home Loan Mortgage Corporation Bonds	(3,219,421)	3,219,421
Federal National Mortgage Corporation Bonds	(6,202,511)	6,202,511
Federal Farm Credit Bank Bonds	(245,911)	245,911
Nationwide Platinum Note	(1,040,149)	1,040,149
Mutual Funds	(1,834,312)	1,834,312
STAROhio	(17,602,424)	17,602,424
GASB Statement No. 3	\$7,536,853	\$36,439,840

NOTE 6 - MUNICIPAL INCOME TAX

The City levies and collects an income tax of one and one-half percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of eighty-three and one-third percent of the tax paid to another municipality that has a tax rate of one and one-half percent or less, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. All proceeds go to the General Fund.

NOTE 7 - PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 7 - PROPERTY TAX *(continued)*

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25 percent of true value for capital assets and 22 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2004, was \$2.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$771,734,920
Public Utility Property	11,744,830
Tangible Personal	<u>37,349,805</u>
Total Property Taxes	<u><u>\$820,829,555</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes 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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Gahanna. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004, and for which there is an enforceable legal claim. In governmental funds, the entire receivable has been deferred since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 8 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, charges for services, interest on investments, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$844,258
Local Government Revenue Assistance	76,146
Liquor Permits	31,018
Estate Taxes	35,564
Homestead And Rollback	132,656
Franklin County Clerk of Courts	463
Franklin County Municipal Court	538
Gasoline Tax	446,140
Permissive Tax	132,404
Motor Vehicle License Tax	154,124
Total Intergovernmental Receivable	<u><u>\$1,853,311</u></u>

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 9 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2004, was as follows:

	Restated Balance At 12/31/2003	Additions	Deletions	Balance At 12/31/2004
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$12,860,536	\$1,271,383	\$0	\$14,131,919
Construction In Progress	6,184,115	782,195	(4,119,205)	2,847,105
Total Capital Assets Not Being Depreciated	<u>19,044,651</u>	<u>2,053,578</u>	<u>(4,119,205)</u>	<u>16,979,024</u>
Depreciable Capital Assets:				
Buildings	8,734,675	27,839	0	8,762,514
Improvements Other Than Buildings	4,905,554	55,800	0	4,961,354
Machinery And Equipment	3,811,199	700,349	(199,348)	4,312,200
Vehicles	2,439,696	54,064	(12,300)	2,481,460
Infrastructure:				
Bridges And Culverts	4,089,982	88,237	0	4,178,219
Sidewalks	2,908,919	5,850	0	2,914,769
Streets And Curbs	38,295,758	6,951,968	0	45,247,726
Street Lighting	1,727,058	0	0	1,727,058
Storm Sewer	9,003,229	0	0	9,003,229
Traffic Control Lighting	4,575,517	0	0	4,575,517
Total Depreciable Capital Assets	<u>80,491,587</u>	<u>7,884,107</u>	<u>(211,648)</u>	<u>88,164,046</u>
Total Capital Assets At Historical Cost	<u>99,536,238</u>	<u>9,937,685</u>	<u>(4,330,853)</u>	<u>105,143,070</u>
Less Accumulated Depreciation:				
Buildings	(1,919,318)	(166,555)	0	(2,085,873)
Improvements Other Than Buildings	(1,860,361)	(214,263)	0	(2,074,624)
Machinery and Equipment	(1,527,640)	(481,717)	43,375	(1,965,982)
Vehicles	(1,572,292)	(196,187)	12,300	(1,756,179)
Infrastructure:				
Bridges And Culverts	(398,331)	(65,154)	0	(463,485)
Sidewalks	(1,892,575)	(102,902)	0	(1,995,477)
Streets And Curbs	(28,903,433)	(1,611,653)	0	(30,515,086)
Street Lighting	(1,076,659)	(89,476)	0	(1,166,135)
Storm Sewer	(2,086,015)	(138,437)	0	(2,224,452)
Traffic Control Lighting	(2,292,200)	(450,569)	0	(2,742,769)
Total Accumulated Depreciation	<u>(43,528,824)</u>	<u>(3,516,913)</u>	<u>55,675</u>	<u>(46,990,062)</u>
Depreciable Capital Assets, Net	<u>36,962,763</u>	<u>4,367,194</u>	<u>(155,973)</u>	<u>41,173,984</u>
Governmental Activities Capital Assets, Net	<u>\$56,007,414</u>	<u>\$6,420,772</u>	<u>(\$4,275,178)</u>	<u>\$58,153,008</u>

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 9 - CAPITAL ASSETS (continued)

	Restated Balance At 12/31/2003	Additions	Deletions	Balance At 12/31/2004
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$39,210	\$0	\$0	\$39,210
Construction In Progress	144,972	629,236	(144,972)	629,236
Total Capital Assets, Not Being Depreciated	184,182	629,236	(144,972)	668,446
Depreciable Capital Assets:				
Buildings	991,000	0	0	991,000
Machinery And Equipment	530,700	25,791	0	556,491
Vehicles	0	13,522	0	13,522
Infrastructure:				
Water Lines	38,748,121	176,900	0	38,925,021
Sewer Lines	22,495,789	258,144	0	22,753,933
Total Depreciable Capital Assets	62,765,610	474,357	0	63,239,967
Total Capital Assets At Historical Cost	62,949,792	1,103,593	(144,972)	63,908,413
Less Accumulated Depreciation:				
Buildings	(245,161)	(28,320)	0	(273,481)
Machinery and Equipment	(160,762)	(29,146)	0	(189,908)
Vehicles	0	(916)	0	(916)
Infrastructure:				
Water Lines	(13,171,045)	(602,867)	0	(13,773,912)
Sewer Lines	(7,433,520)	(346,739)	0	(7,780,259)
Total Accumulated Depreciation	(21,010,488)	(1,007,988)	0	(22,018,476)
Depreciable Capital Assets, Net	41,755,122	(533,631)	0	41,221,491
Business-Type Activities Capital Assets, Net	\$41,939,304	\$95,605	(\$144,972)	\$41,889,937

Depreciation expense was charged to governmental programs as follows:

Security of Persons And Property	\$168,940
Leisure Time Activities	229,009
Community Development	195,029
Basic Utility Services	198,882
General Government	227,072
Transportation	2,497,981
Total Depreciation Expense	<u>\$3,516,913</u>

NOTE 10 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$470,034, \$359,344, and \$309,093, respectively; 78.61 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were \$8,908 made by the City and \$5,588 made by the plan members.

NOTE 10 – DEFINED BENEFIT PENSION PLANS *(continued)*

B. Ohio Police And Fire Pension Fund

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police. The City has no firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002, were \$409,484, \$378,273, and \$368,521, respectively. The full amount has been contributed for 2003 and 2002. 76.18 percent has been contributed for 2004.

NOTE 11 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

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

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 11 – POSTEMPLOYMENT BENEFITS *(continued)*

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$196,873. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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

B. Ohio Police And Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. Gahanna has no fire personnel; therefore OP&F covers police personnel only.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$270,085 for police. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date and allows the unused balance to be accumulated at levels which depend upon years of service. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at variable rates based on years of service worked and can be accumulated without limit. Each employee with the City is paid, according to their contract, a portion of their earned unused sick leave upon termination from the City, or the full balance may be transferred to another governmental agency. In the event that an employee dies as the result of injuries sustained on the job, his or her estate will be paid the total allowable amount of all earned unused sick leave.

City employees working in excess of designated work hours are entitled to either overtime pay or compensatory time according to the Fair Labor Standards Act. Employees may elect to receive compensatory time in lieu of overtime pay. Compensatory time must be used within one year of accrual or it will be forfeited. Current policy allows accumulation of compensatory time to levels in the negotiated agreements.

B. Deferred Compensation Plan

Employees of the City may elect to participate in the ING Life Insurance and Annuity Company, or the Ohio Public Employees Deferred Compensation plans created in accordance with Internal Revenue Code Section 457. Under these programs, employees elect to defer a portion of their pay. The deferred pay and any income earned on it is not subject to federal and state income taxation until actually received by the employee. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 12 - EMPLOYEE BENEFITS (continued)

C. Health Care Benefits

On January 1, 1992, the City joined the Central Ohio Health Care Consortium, a risk-sharing pool, which provides employee health care benefits for all full-time employees who wish to participate in the plan. The pool consists of nine political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. The City pays monthly contributions to the Consortium, which are used to cover claims and administrative costs, and to purchase excess loss insurance for the plan. The Consortium has entered into an agreement for individual and aggregate excess loss coverage with a commercial insurance carrier. The individual excess loss coverage has been structured to indemnify the Plan for medical claims paid for an individual in excess of \$175,000 per claim per year, with an individual lifetime maximum of \$2,000,000. The aggregate excess loss coverage has been structured to indemnify the Plan for aggregate claims paid in excess of \$10,501,216 to a maximum of \$1,000,000 annually. In the event that the losses of the Consortium in any year exceeds amounts paid to the Consortium, together with all stop-loss, reinsurance and other coverage then in effect, then the payment of all uncovered losses shall revert to and be the sole obligation of the political subdivision against which the claim was made.

Dental, vision, and life insurance coverage is provided by Delta Dental, Vision Service Plan, and Sun Life of Canada Insurance Companies, respectively.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

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

The copier equipment has been capitalized in the amount of \$101,327. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2004 totaled \$22,804 in the governmental funds.

The assets acquired through capital leases as of December 31, 2004, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$101,327	\$81,717	\$19,610

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004.

Year Ending December 31,	Payments
2005	\$30,031
2006	4,960
Total	34,991
Less: Amount representing Interest	(3,544)
Present Value of Minimum Lease Payment	\$31,447

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

A. Bonded Debt And Other Long-Term Obligations

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2004, was as follows:

Types / Issues	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004	Due Within One Year
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
Water Fund					
1991 - Star Bank Series 6.10%	\$90,000	\$0	\$90,000	\$0	\$0
1994 - Star Bank Series 4.90%	905,000	0	160,000	745,000	175,000
Total Water Fund	995,000	0	250,000	745,000	175,000
Sewer Fund					
1991 - Star Bank Series 6.10%	105,000	0	105,000	0	0
Total General Obligation Bonds	1,100,000	0	355,000	745,000	175,000
<u>Other Long-Term Obligations</u>					
1996 - OPWC Loan 3.5 %	101,685	0	9,195	92,490	9,519
Compensated Absences Payable	0	33,936	20,788	13,148	658
Total Business-Type Activities	\$1,201,685	\$33,936	\$384,983	\$850,638	\$185,177

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS
(continued)

Types / Issues	Balance 12/31/2003	Issued	Retired	Balance 12/31/2004	Due Within One Year
Governmental Activities					
General Obligation Bonds					
1994 - Star Bank Series 4.60%	\$2,300,000	\$0	\$410,000	\$1,890,000	\$430,000
Long-Term Notes					
1999 - McCorkle Park Variable	107,600	0	107,600	0	0
1998 - Post Office Building					
Notes 6.00%	1,281,198	0	1,281,198	0	0
Total Long-Term Notes	1,388,798	0	1,388,798	0	0
Other Long-Term Obligations					
Compensated Absences	1,135,932	608,504	507,193	1,237,243	477,660
Capital Lease	54,251	0	22,804	31,447	26,594
Total Other Long-Term	1,190,183	608,504	529,997	1,268,690	504,254
Total Governmental Activities	\$4,878,981	\$608,504	\$2,328,795	\$3,158,690	\$934,254

The City's overall legal debt margin was \$85,560,221, with an unvoted debt margin of \$44,518,744 at December 31, 2004.

Annual debt service requirements to maturity for general obligation bonds and OPWC loans for business-type activities are:

	<i>Business-Type Activities</i>			
	<i>Water General</i>		<i>Sewer OPWC Loans</i>	
	<i>Obligation Bonds</i>		<i>Obligation Bonds</i>	<i>Sewer OPWC Loans</i>
<i>Year</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2005	\$175,000	\$37,651	\$9,519	\$3,155
2006	180,000	27,710	9,856	2,818
2007	190,000	17,162	10,204	2,471
2008	200,000	5,850	10,564	2,110
2009	0	0	10,936	1,737
2010-2013	0	0	41,411	2,949
Totals	\$745,000	\$88,373	\$92,490	\$15,240

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS
(continued)

Annual debt service requirements to maturity for governmental long-term obligations are:

<i>Year</i>	<i>Governmental Activities</i>	
	<i>General Obligation Bonds</i>	
	<i>Principal</i>	<i>Interest</i>
2005	\$430,000	\$95,933
2006	460,000	71,005
2007	490,000	43,923
2008	510,000	14,918
Totals	\$1,890,000	\$225,779

B. General Obligation Bonds

During 1994, the City issued \$4,105,000 in general obligation bonds to provide funds for the acquisition and construction of major capital facilities and refinancing of bond anticipation notes. General obligation bonds are direct obligations and pledge the full faith and credit of the City for repayment. These bonds are generally issued as 15 year serial bonds with equal amounts of principal maturing each year and are paid with property taxes from the Debt Service Fund.

C. Enterprise Fund General Obligation Bonds

During 1991 and 1994, the City issued \$1,800,000 and \$1,505,000, respectively, in general obligation bonds for the purpose of replacing and constructing water and sewer lines. Enterprise obligation bonds are direct obligations and pledge the full faith and credit of the City for repayment. These bonds are generally issued as 15 year serial bonds with equal amounts of principal maturing each year and are paid from revenues from the operations of the water and sewer systems.

D. Long-Term Notes

On August 31, 1998, the City entered into an agreement to pay a promissory note in the amount of \$1,300,000 at 6.00% interest in exchange for property at 109 Mill Street, Gahanna, Ohio, 43230. The note was payable from resources from the General Fund and was repaid in full on February 28, 2004.

On June 17, 1999, the City entered into an agreement to pay a promissory note in the amount of \$538,000 at variable interest rates in exchange for 12.596 acres of land located within the corporation limits. The interest rate is based on the 90 day T-bill interest rate on January 1st, for each year of the loan. The note was payable from resources from the General Fund and was paid in full on June 17, 2004.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS
(continued)

E. Ohio Public Works Commission (OPWC) Loans

The 1996 OPWC loan consists of \$181,202 borrowed from the Ohio Public Works Commission for various construction projects within the City. The 20 year loan is payable from gross revenues of the Sewer Enterprise Fund.

F. Compensated Absences / Capital Leases

Compensated absences will be paid from the General, Street Maintenance and Repair, State Highway, Water, and Sewer Funds. Capital leases were paid from the General Fund.

G. Healthcare Facilities Bonds

The City has one outstanding issue of Healthcare facilities bonds in the amount of \$2,910,000 at December 31, 2004, for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing instruments. The bonds were refunded in June 2005 by Franklin County.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 15 - CONSTRUCTION COMMITMENTS

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2004, the significant outstanding construction commitments were:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Completed</u>	<u>Balance At 12/31/2004</u>
Academy Woods Storm Sewer	\$269,000	\$207,515	\$61,485
Morse Road/State Route 62	351,037	340,941	10,096
Tech Center Drive	146,000	81,714	64,286
Morrison Road - Phase II	99,000	32,435	66,565
Taylor Road at Eastgate	122,823	97,452	25,371
Hamilton Road	1,733,965	1,562,060	171,905
Old McCutcheon Road	70,000	42,126	27,874
Morrison Road/Hamilton Road	59,000	37,557	21,443
East Johnstown Road Widening	124,785	119,485	5,300
Ogden Alley Sanitary Sewer	217,680	5,473	212,207
Ogden Sanitary Lining	236,420	207,237	29,183
Ogden Alley Rebuild	230,985	40,872	190,113
College Park/Heritage Sanitary Sewer Grouting and Lining	149,684	90,630	59,054
Columbus Academy/Cherry Bottom Road Turn Lane	83,500	0	83,500
Impervious Area Determination	82,400	65,101	17,299
Gahanna Creekside LLC	3,100,000	0	3,100,000
Royal Manor and Rocky Fork Stormwater Study	123,600	89,277	34,323
Total	<u>\$7,199,879</u>	<u>\$3,019,875</u>	<u>\$4,180,004</u>

NOTE 16 - RISK MANAGEMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability insurance and police professional liability insurance. The City also carries public officials' liability insurance. Settlements have not exceeded coverage in any of the last three years. There has not been a significant reduction in coverage from the prior year.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 17 – INTERFUND ACTIVITY

Transfers made during the year ended December 31, 2004, were as follows:

		Transfers To			
		General	Capital Improvements	All Other Nonmajor Funds	Total
Transfers From	General	\$0	\$358,900	\$1,439,861	\$1,798,761
	Water	5,000	0	0	5,000
	Sewer	5,000	0	0	5,000
	Total	\$10,000	\$358,900	\$1,439,861	\$1,808,761

Transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfers from the Water and Sewer Funds to the General Fund were made for future severance payments. All transfers made in 2004 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 18 – UNDIVIDED INTEREST

On February 21, 1996, a contract was entered into between the Gahanna Jefferson City School District (the District) and the City of Gahanna, to construct and operate a vehicle maintenance facility and fueling station. Based on the terms of the agreement, the entities equally bear the cost related to the construction and maintenance of the facility. In addition, the City received a credit of \$93,980 on the construction and maintenance of this facility, representing the fair value of the 4.699 acres of land that the City deeded to the District for this project. The City's undivided interest in this facility is being shown as a capital asset in the Government-wide financial statements.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2004

NOTE 19 – CAPITAL LEASE RECEIVABLE

City-owned land is leased to twenty companies: Harold-Winfred Hill, Bailey Leather Company, C. and P. Company, B. G. and H. Investment Company, H. and G. Reality, Ball and Galloway, R. and M. Mstivi, Harry Bott, Sylvania L. and B. Company, S. and D. Mueller, B. and V. Decker, J. and D Hbener, E. and P. Stinson and G. and D. Chadwick, A. S. and D. Mueller, B. and J. Smith, M. and S. Craft, Restaurant Food Supply, Eastgate Properties, Tagg-Marr-Rear, and Contemporary Construction.

The lease period is thirty years. At the conclusion of the lease period, the companies may purchase the leased properties for \$100. The City has classified these agreements as capital leases. The lease payments to the City are paid into the Miscellaneous Lease Receipts Special Revenue Fund. On a full accrual basis, the amount of the receivable that has been earned is recorded as revenue.

<u>Year Ending December 31,</u>	<u>Receipts</u>
2005	\$185,283
2006	134,120
2007	134,121
2008	124,981
2009	89,406
2010-2014	110,400
2015-2017	<u>8,890</u>
Total Lease Receivable	<u><u>\$787,201</u></u>

NOTE 20 - CONTINGENT LIABILITIES

A. Litigation

The City is not currently party to any legal proceedings.

B. Federal And State Grants

For the period January 1, 2004, to December 31, 2004, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Rd. West
Westerville, Ohio 43082

Telephone 614.846.1899
Facsimile 614.846.2799

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

Members of Council and Mayor
City of Gahanna
200 South Hamilton Road
Gahanna, OH 43230

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, Franklin County, Ohio (the “City”) as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 4, 2005. As disclosed in Note 3 to the financial statements, the City implemented GASB Technical Bulletin No. 2004-2. In addition, the City had prior period adjustments for the overstatement of cash; and deferred revenue related to the City’s capital lease receivable and capital assets not valued properly. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of Council and Mayor
City of Gahanna
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Julian & Grube, Inc.
August 4, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF GAHANNA

FRANKLIN 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
NOVEMBER 29, 2005**