

**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

Basic Financial Statements
(Audited)

For The Year Ended
December 31, 2006

W. JEROME ISLER, DIRECTOR OF FINANCE



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Gahanna, Franklin County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 18, 2007

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**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

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

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

Independent Auditor's Report

Members of Council and Mayor
City of Gahanna
200 South Hamilton Road
Gahanna, Ohio 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, (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, Franklin County, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and respective budgetary comparisons for the general fund and street maintenance and repair special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 17, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 considered in assessing the results of our audit.

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

Julian & Grube, Inc.
July 17, 2007, except for Note 23 which is dated July 31, 2007

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

The discussion and analysis of the City of Gahanna's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

- ' The City's total net assets increased \$5,891,569. Revenues of governmental activities exceeded expenses by \$4,292,396. Net assets of business-type activities increased by \$1,599,173.
- ' General revenues of governmental activities accounted for \$24,704,305 or 83.91 percent of all governmental revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,737,882 or 16.09 percent of total governmental revenues of \$29,442,187.
- ' The City had \$23,868,493 in expenses related to governmental activities. \$4,737,882 of these expenses were offset by program specific charges for services, grants and contributions. General revenues (primarily income taxes) of \$24,704,305 were more than adequate to provide for these programs. The City had \$10,850,535 in expenses related to business-type activities, which were offset entirely by program specific charges for services.
- ' Enterprise funds reflected a total operating income of \$328,763. The Water Fund reflected an operating loss of \$683,899, while the Sewer Fund and Storm Water Fund reflected operating incomes of \$1,002,785 and \$9,877, respectively.

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.

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

REPORTING THE CITY AS A WHOLE

One of the most important questions asked about the City is “How did we do financially during 2006?” The Statement Of Net Assets and the Statement Of Activities, which appear first in the City’s financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the City’s net assets and changes in those assets. This change in net assets is important because it informs the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. 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, basic utility service, transportation, and general government.

Business-Type Activities – These services include water, sewer and storm water. Service fees for these operations are charged based upon the amount of usage except for the storm water charges. The intent is that the fees charged recoup operational costs. Fees for the Storm Water Fund are based on Equivalent Residential Units (ERU) and transfers. The intent of the storm water fees is to cover the cost of repairs and improvements.

REPORTING THE CITY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City’s major funds begins on page 11. Fund financial statements provide detailed information about the City’s major funds – not the City as a whole. The City uses many funds to account for a multitude of financial transactions. 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’s major funds are the General Fund, the Street Maintenance and Repair Special Revenue Fund, the Bond Retirement Debt Service Fund, the Capital Improvement Capital Projects Fund, and the Water, Sewer and Storm Water Enterprise Funds.

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

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.

Fiduciary Funds

The City's fiduciary funds are three agency funds. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

THE CITY AS A WHOLE

As stated previously, the Statement Of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	Restated 2005	2006	Restated 2005	2006	Restated 2005	2006
Assets						
Current And Other						
Assets	\$51,751,861	\$46,798,613	\$18,466,621	\$19,643,867	\$70,218,482	\$66,442,480
Nondepreciable Capital						
Assets	25,329,416	35,656,878	1,194,002	2,373,922	26,523,418	38,030,800
Depreciable Capital						
Assets, Net	29,158,236	28,512,782	50,310,436	49,625,092	79,468,672	78,137,874
Total Assets	106,239,513	110,968,273	69,971,059	71,642,881	176,210,572	182,611,154
Liabilities						
Current And Other						
Liabilities	5,286,582	5,682,867	1,741,671	1,713,768	7,028,253	7,396,635
Long-Term Liabilities:						
Due Within One Year	1,358,643	1,504,973	211,520	234,165	1,570,163	1,739,138
Due in More Than						
One Year	15,828,554	15,722,303	463,115	541,022	16,291,669	16,263,325
Total Liabilities	22,473,779	22,910,143	2,416,306	2,488,955	24,890,085	25,399,098
Net Assets						
Invested in Capital						
Assets, Net Of						
Related Debt	50,801,490	54,932,564	50,851,467	51,247,249	101,652,957	106,179,813
Restricted for:						
Capital Outlay	3,767,296	5,129,937	0	0	3,767,296	5,129,937
Debt Service	1,080,172	921,766	0	0	1,080,172	921,766
Community Development	906,639	855,466	0	0	906,639	855,466
Security Of Persons And Property	1,295,207	650,355	0	0	1,295,207	650,355
Transportation	1,425,032	1,250,443	0	0	1,425,032	1,250,443
Leisure Time Activities	34,690	19,895	0	0	34,690	19,895
Other Purposes	609,032	638,624	0	0	609,032	638,624
Unrestricted	23,846,176	23,659,080	16,703,286	17,906,677	40,549,462	41,565,757
Total Net Assets	\$83,765,734	\$88,058,130	\$67,554,753	\$69,153,926	\$151,320,487	\$157,212,056

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Overall, an increase of 4.45 percent occurred within total governmental assets from the prior year. However, a decrease of \$4,953,248, or 9.57 percent, occurred within current and other assets of governmental activities when compared to the prior year. The only asset account which had a real effect on this decrease was equity in pooled cash and cash equivalents, which decreased \$4,785,695 as a result of capital related expenditures made during 2006. Nondepreciable capital assets demonstrated an increase of 40.77 percent due to construction in progress additions relating to various street construction projects and the Gahanna Creekside Development Project that is being constructed. Depreciable capital assets decreased by \$645,454 as the result of annual depreciation exceeding additions for the year.

Reviewing liabilities of governmental activities demonstrates a 7.50 percent increase in current and other liabilities. Several accounts contributed to this increase. Accrued wages increased by \$340,621. In the prior year, the City did not have any outstanding wages at year-end that were not paid until the following year. For the current year, the City reported the first pay made in January 2007 as accrued wages. Contracts payable increased \$1,029,702 as a result of outstanding invoices for work performed for the various street construction projects and the Gahanna Creekside Development Project that was not paid until after year-end. These significant increases were somewhat offset due to the retirement of the \$1,000,000 notes payable which existed in the prior year. Long-term liabilities of the governmental activities increased \$40,079. This was the result of the City entering into an Ohio Public Works Commission loan in the amount of \$957,137, offset by the City's current year principal payments on existing debt obligations as well as the City transferring debt obligations from governmental activities to business-type activities.

Invested in Capital Assets, Net of Related Debt of governmental activities increased \$4,131,074. This was primarily the result of current year additions to capital assets not funded by outstanding debt exceeding current year depreciation. A significant increase in capital assets occurred due to ongoing construction relating to various street construction projects and the Gahanna Creekside Development Project.

Governmental restricted net assets increased \$348,418. When examining the individual components of governmental restricted net assets, those restricted for capital outlay increased \$1,362,641 as a result of an excess of monies transferred from unrestricted sources. This was the result of the City wanting to utilize excessive estate tax revenue for projects that are "long lasting." Restricted net assets for debt service decreased 14.66 percent as a result of annual debt payments made by the City. Restricted net assets for security of persons and property decreased \$644,852 as a result of a transfer made to close out the COPS Grant Fund. The City had used General Fund monies to pay for the hiring of police officers through the program. However, the grant money received through the COPS grant was never used to offset these expenditures. Therefore, when the fund needed to be closed out, the City transferred the remaining grant monies to the General Fund. Restricted net assets for transportation decreased 12.25 percent due to the utilization of funds for the Morrison Phase II construction project. Restricted net assets for community development and leisure time activities had insignificant decreases of \$51,173 and \$14,795, respectively. Restricted net assets for other purposes had an insignificant increase of

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
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\$29,592. Unrestricted governmental net assets experienced a decrease \$187,096, or less than one percent which is an insignificant decrease for the year.

In total, assets of business-type activities increased \$1,671,822. An increase of \$1,177,246 occurred within current and other assets when compared to the prior year. The only asset category that had a real effect on this increase was equity in pooled cash and cash equivalents. This account increased 5.96 percent from the prior year due to the City transferring General Fund monies of \$1,260,000 to the Storm Water Fund. Nondepreciable capital assets increased \$1,179,920 as a result of the Morrison Road – Phase II project and the Gahanna Creekside Development Project being constructed. Depreciable capital assets, net of depreciation decreased \$685,344 due primarily to current year depreciation exceeding current year additions. Total liabilities of business-type activities increased \$72,649, due primarily to the City transferring debt obligations from governmental activities to business-type activities during the year. Total net assets of business-type activities increased \$1,599,173, or less than three percent, which is insignificant.

Table 2 shows changes in net assets for the years ended December 31, 2005 and 2006.

Table 2
Changes In Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues						
Program Revenues:						
Charges for Services	\$2,256,946	\$1,814,615	\$10,164,991	\$11,103,611	\$12,421,937	\$12,918,226
Operating Grants And Contributions	2,074,238	2,044,487	0	0	2,074,238	2,044,487
Capital Grants And Contributions	4,001,600	878,780	0	0	4,001,600	878,780
Total Program Revenues	\$8,332,784	\$4,737,882	\$10,164,991	\$11,103,611	\$18,497,775	\$15,841,493

(continued)

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Table 2
Changes In Net Assets
(Continued)

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues						
General Revenues:						
Property Taxes	\$1,760,944	\$2,012,766	\$0	\$0	\$1,760,944	\$2,012,766
Municipal Income Taxes	13,581,726	14,709,010	0	0	13,581,726	14,709,010
Other Local Taxes	729,072	798,742	0	0	729,072	798,742
Grants And Entitlements						
Not Restricted To						
Specific Programs	2,889,627	4,339,266	0	0	2,889,627	4,339,266
Unrestricted Investment						
Earnings	1,309,754	2,750,655	0	5,233	1,309,754	2,755,888
Contributions and						
Donations	0	1,116	0	0	0	1,116
Other	264,547	92,750	43,392	59,566	307,939	152,316
Total General Revenues	<u>20,535,670</u>	<u>24,704,305</u>	<u>43,392</u>	<u>64,799</u>	<u>20,579,062</u>	<u>24,769,104</u>
Total Revenues	<u>28,868,454</u>	<u>29,442,187</u>	<u>10,208,383</u>	<u>11,168,410</u>	<u>39,076,837</u>	<u>40,610,597</u>
Program Expenses						
Security Of Persons						
And Property	7,417,265	8,398,282	0	0	7,417,265	8,398,282
Public Health	157,642	184,719	0	0	157,642	184,719
Leisure Time Activities	2,814,008	2,384,657	0	0	2,814,008	2,384,657
Community Development	3,415,395	4,799,410	0	0	3,415,395	4,799,410
Basic Utility Services	224,602	16,946	0	0	224,602	16,946
General Government	1,638,274	2,885,011	0	0	1,638,274	2,885,011
Transportation	6,443,357	4,533,474	0	0	6,443,357	4,533,474
Interest And						
Fiscal Charges	297,839	665,994	0	0	297,839	665,994
Water	0	0	4,164,243	4,409,294	4,164,243	4,409,294
Sewer	0	0	4,394,265	5,760,998	4,394,265	5,760,998
Storm Water	0	0	496,079	680,243	496,079	680,243
Total Expenses	<u>22,408,382</u>	<u>23,868,493</u>	<u>9,054,587</u>	<u>10,850,535</u>	<u>31,462,969</u>	<u>34,719,028</u>
Increase In Net Assets						
Before Transfers	6,460,072	5,573,694	1,153,796	317,875	7,613,868	5,891,569
Transfers	(10,706,328)	(1,281,298)	10,706,328	1,281,298	0	0
Increase (Decrease)						
In Net Assets	(4,246,256)	4,292,396	11,860,124	1,599,173	7,613,868	5,891,569
Net Assets At Beginning						
Of Year	88,011,990	83,765,734	55,694,629	67,554,753	143,706,619	151,320,487
Net Assets At End Of Year	<u>\$83,765,734</u>	<u>\$88,058,130</u>	<u>\$67,554,753</u>	<u>\$69,153,926</u>	<u>\$151,320,487</u>	<u>\$157,212,056</u>

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Governmental Activities

Program revenues, which are primarily represented by charges for permits, fines, and departmental services, as well as restricted intergovernmental revenues were 16.09 percent of total revenues for 2006 and were significantly lower than 2005. This is the result of the City receiving significant grant monies in 2005 from the Ohio Public Works Commission that were not received in 2006.

As previously mentioned, general revenues were 83.91 percent of total revenues for 2006. The City relies immensely on property and income taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed. The 1.5 percent income tax is the largest source of revenue for the City of Gahanna, making up 49.96 percent of revenues for governmental activities for the year ended 2006. Employee withholding from all businesses contributes 64.4 percent of the revenue received in 2006 with business earnings contributing 5.1 percent and individuals contributing 30.5 percent. The City provides 83 and 1/3 percent tax credit for taxes paid to another municipality and an exemption for residents under the age of 18.

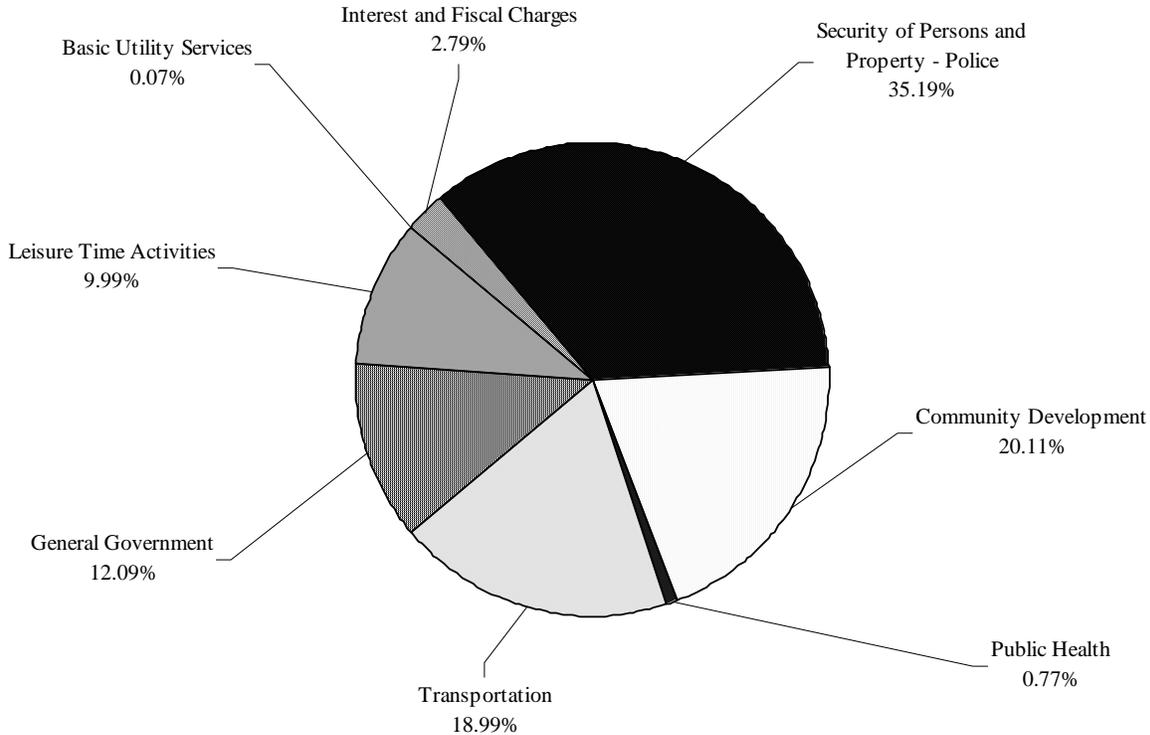
Since 1992, income tax revenue has increased annually an average of 9.92 percent. While the City lost one of its largest employers in 2005, successful efforts to expand existing business and attract new businesses minimized the effect of this loss.

Grants and Entitlements not Restricted to Specific Programs made up 14.74 percent of revenue for governmental activities of the City for the year ended 2006. Property tax revenue made up 6.84 percent of revenue for governmental activities for a total of 71.54 percent of all revenue coming from income taxes, property taxes, and grants and entitlements not restricted to specific programs.

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 2006, over \$57 million from governmental and business sources including, but not limited to, 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.

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

Governmental program expenses for 2006 were as follows:



The above chart clearly indicates the City's major sources of expenses, 35.19 percent, is related to citizen safety and the emphasis on well-being in the family-oriented community. A distant second, 20.11 percent, is the commitment to community development within the City. All other forms of governmental operations represent 44.70 percent of expenses.

Business-Type Activities

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

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(Unaudited)

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.

A storm water utility charge was put into place January 1, 2005, the purpose of which was to create a funding source to help alleviate some of the flooding problems endured by the residents and businesses. Charges are assessed by the City to Gahanna residents and businesses. The revenue is used to pay for the necessary sediment control plans, construction, maintenance, rehabilitation and inspection of existing and new storm water facilities.

Program revenues for business-type activities, which are primarily represented by charges for water, sewer, and storm water services provided to residents and businesses within the City, increased \$938,620 from the prior year as a result of significant increases in sewer collections for 2006. Sewer collections increased during 2006 due to rate increases enacted by the City in 2006. Program expenses for business-type activities represented a significant increase from the prior year of 20 percent. This was the result of a significant increase in contractual services used for sewer operations. The City pays the City of Columbus for sewer rentals during the year. For 2006, the City of Columbus increased its rates, which resulted in an increase in the City's expenses.

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 18. All governmental funds had total revenues of \$29,330,658 and expenditures of \$34,248,735. The General Fund balance decreased \$4,570,034. This is primarily the result of transfer activity during the year.

The Street Maintenance and Repair Fund's balance decreased \$1,475,735, as a result of an increase in expenditures relating to the Morrison Road – Phase II project.

The Bond Retirement Fund's balance decreased \$177,512, due primarily to debt payments made by the City.

The Capital Improvement Fund's balance increased \$1,397,675, as a result of an excess of monies transferred from unrestricted sources. The transfer occurred as a result of the City wanting to utilize excessive estate tax revenue receipted into the General Fund for projects that are "long lasting."

City of Gahanna, Ohio
Management's Discussion and Analysis
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(Unaudited)

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 2006, the City amended its General Fund budget as needed. For the General Fund, final budgeted revenues, in the amount of \$26,089,130, were above original budgeted revenues, in the amount of \$24,870,369. This increase is due to increases in income tax revenues and investment earnings. The increase in income tax collections is due to a conservative estimate made by the City in its initial planning process due to the loss of one of its largest employers. Investment earnings were significantly greater than originally planned due to the City investing bond proceeds from the 2005 Creekside/Morrison Road bond issue until expenses come due for each of the respective projects. For 2006, final budgeted revenues were higher than actual revenues in the amount of \$25,995,064. The difference of less than one percent and is inconsequential.

The increase in expenditures from the original to the final budget was \$4,990,761. This increase of 12.40 percent was due to increased expenditures for capital outlay, including roadway construction projects, building construction, vehicles, and equipment. The difference in actual expenditures made from the final budget was 7.76 percent and a somewhat significant reduction. The two primary causes of this reduction were a decrease in actual expenditures for basic utility services from final budgeted amounts of \$1,503,722 and a decrease in actual general government expenditures from final budgeted amounts of \$966,317. These reductions were the results of various departments spending less in all objects ranging from salaries and benefits to materials and supplies.

Actual General Fund revenues were less than expenditures by \$15,739,340. The primary reason for this variance is due to bond proceeds received in 2005 in which the expenditures will span into 2008. The full amount of the proceeds was encumbered during 2005 and the unspent portion is carried over from year to year, creating a significant negative variance between revenues and expenditures.

The City's ending unobligated fund balance was \$2,858,077 above the final budgeted amount.

City of Gahanna, Ohio
Management's Discussion and Analysis
For The Year Ended December 31, 2006
(Unaudited)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had \$64,169,660 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$9,682,008, or more than 17 percent from prior year. Increases in capital assets included land and building purchases, building improvements, various routine machinery and equipment purchases, various vehicle purchases, infrastructure additions primarily related to street resurfacing, and construction in progress additions related to street projects and the Gahanna Creekside Development Project. Disposal of capital assets included various pieces of machinery and equipment. The increase in capital assets is primarily the result of the Gahanna Creekside Development Project.

The City also had \$51,999,014 invested in capital assets (net of accumulated depreciation) for business-type activities, an increase of \$494,576, a significant increase from the prior year. Increases in capital assets included construction in progress additions, various routine machinery and equipment purchases, the purchase of utility vehicles within the departments, and the installation of sewer lines. Disposal of capital assets included a mower which was utilized by the Storm Water Department.

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

Debt

The City's outstanding debt obligations at year end included general obligation bonds in the amount of \$14,375,646 and an Ohio Public Works Commission loan in the amount of \$957,137 for governmental activities. Business-type activities had general obligation bonds in the amount \$678,650 and an Ohio Public Works Commission loan in the amount of \$73,115 outstanding at year-end. The City's long-term obligations also included capital leases and compensated absences for governmental activities and business-type activities.

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.

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City of Gahanna, Ohio
Statement Of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity In Pooled Cash And Cash Equivalents	\$36,496,724	\$16,778,535	\$53,275,259
Cash And Cash Equivalents:			
With Fiscal Agents	420,259	0	420,259
With Escrow Agents	89,728	21,764	111,492
Accrued Interest Receivable	257,206	0	257,206
Accounts Receivable	424,238	2,805,773	3,230,011
Municipal Income Tax Receivable	3,847,633	0	3,847,633
Due From Other Governments	1,991,095	0	1,991,095
Prepaid Items	96,144	5,239	101,383
Materials And Supplies Inventory	222,275	32,556	254,831
Property Taxes Receivable	2,133,784	0	2,133,784
Other Local Taxes Receivable	129,402	0	129,402
Capital Leases Receivable	575,286	0	575,286
Deferred Charges	114,839	0	114,839
Land And Construction In Progress	35,656,878	2,373,922	38,030,800
Depreciable Capital Assets, Net	28,512,782	49,625,092	78,137,874
Total Assets	110,968,273	71,642,881	182,611,154
<u>Liabilities:</u>			
Accounts Payable	537,429	74,441	611,870
Accrued Wages	340,621	24,003	364,624
Contracts Payable	1,119,047	188,618	1,307,665
Retainage Payable	231,565	21,764	253,329
Due To Other Governments	673,656	1,393,427	2,067,083
Deferred Revenue	2,600,228	0	2,600,228
Accrued Interest Payable	52,477	2,949	55,426
Compensatory Time Payable	127,844	8,566	136,410
Long-Term Liabilities:			
Due Within One Year	1,504,973	234,165	1,739,138
Due In More Than One Year	15,722,303	541,022	16,263,325
Total Liabilities	22,910,143	2,488,955	25,399,098
<u>Net Assets:</u>			
Invested In Capital Assets, Net Of Related Debt	54,932,564	51,247,249	106,179,813
Restricted For:			
Capital Projects	5,129,937	0	5,129,937
Debt Service	921,766	0	921,766
Community Development	855,466	0	855,466
Security Of Persons And Property	650,355	0	650,355
Transportation	1,250,443	0	1,250,443
Leisure Time Activities	19,895	0	19,895
Other Purposes	638,624	0	638,624
Unrestricted	23,659,080	17,906,677	41,565,757
Total Net Assets	\$88,058,130	\$69,153,926	\$157,212,056

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions
<u>Governmental Activities:</u>				
Security Of Persons And Property	\$8,398,282	\$47,127	\$62,874	\$3,300
Public Health	184,719	0	0	0
Leisure Time Activities	2,384,657	563,900	6,000	0
Community Development	4,799,410	303,563	0	105,054
Basic Utility Services	16,946	165,147	0	0
General Government	2,885,011	674,490	0	0
Transportation	4,533,474	60,388	1,975,613	770,426
Interest And Fiscal Charges	665,994	0	0	0
<i>Total Governmental Activities</i>	<u>23,868,493</u>	<u>1,814,615</u>	<u>2,044,487</u>	<u>878,780</u>
<u>Business-Type Activities:</u>				
Water	4,409,294	3,656,851	0	0
Sewer	5,760,998	6,760,965	0	0
Storm Water	680,243	685,795	0	0
<i>Total Business-Type Activities</i>	<u>10,850,535</u>	<u>11,103,611</u>	<u>0</u>	<u>0</u>
<i>Total Activities</i>	<u>\$34,719,028</u>	<u>\$12,918,226</u>	<u>\$2,044,487</u>	<u>\$878,780</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
 Contributions And Donations
 Unrestricted Investment Earnings
 Other

Transfers

Total General Revenues And Transfers

Change In Net Assets

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

Net Assets At End Of Year

See Accompanying Notes To The Basic Financial Statements

Net (Expense) Revenue And Changes In Net Assets

Governmental Activities	Business-Type Activities	Total
(\$8,284,981)	\$0	(\$8,284,981)
(184,719)	0	(184,719)
(1,814,757)	0	(1,814,757)
(4,390,793)	0	(4,390,793)
148,201	0	148,201
(2,210,521)	0	(2,210,521)
(1,727,047)	0	(1,727,047)
(665,994)	0	(665,994)
<u>(19,130,611)</u>	<u>0</u>	<u>(19,130,611)</u>
0	(752,443)	(752,443)
0	999,967	999,967
0	5,552	5,552
<u>0</u>	<u>253,076</u>	<u>253,076</u>
<u>(19,130,611)</u>	<u>253,076</u>	<u>(18,877,535)</u>
1,518,194	0	1,518,194
243,095	0	243,095
251,477	0	251,477
14,709,010	0	14,709,010
798,742	0	798,742
4,339,266	0	4,339,266
1,116	0	1,116
2,750,655	5,233	2,755,888
92,750	59,566	152,316
<u>(1,281,298)</u>	<u>1,281,298</u>	<u>0</u>
<u>23,423,007</u>	<u>1,346,097</u>	<u>24,769,104</u>
4,292,396	1,599,173	5,891,569
<u>83,765,734</u>	<u>67,554,753</u>	<u>151,320,487</u>
<u>\$88,058,130</u>	<u>\$69,153,926</u>	<u>\$157,212,056</u>

City of Gahanna, Ohio
Balance Sheet
Governmental Funds
December 31, 2006

	<u>General</u>	<u>Street Maintenance and Repair</u>	<u>Bond Retirement</u>
<u>Assets:</u>			
Equity In Pooled Cash And Cash Equivalents	\$24,425,034	\$2,354,091	\$1,076,329
Cash And Cash Equivalents With Fiscal Agents	0	0	0
Receivables:			
Property Taxes	1,609,029	0	257,934
Other Local Taxes	129,402	0	0
Municipal Income Tax Accounts	3,847,633	0	0
Accrued Interest	424,238	0	0
	257,206	0	0
Restricted Assets:			
Cash And Cash Equivalents With Escrow Agents	89,728	0	0
Due From Other Governments	1,153,078	758,361	14,029
Materials And Supplies Inventory	222,275	0	0
Prepaid Items	92,840	3,304	0
Capital Leases Receivable	0	0	0
Total Assets	<u>\$32,250,463</u>	<u>\$3,115,756</u>	<u>\$1,348,292</u>
<u>Liabilities And Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$439,018	\$45,263	\$0
Contracts Payable	349,949	529,788	0
Accrued Wages	326,327	14,236	0
Retainage Payable from Restricted Assets	89,728	0	0
Retainage Payable	4,816	102,898	0
Due To Other Governments	431,616	24,521	0
Deferred Revenue	5,480,087	629,816	271,599
Total Liabilities	<u>7,121,541</u>	<u>1,346,522</u>	<u>271,599</u>
<u>Fund Balances:</u>			
Reserved For Encumbrances	14,520,638	1,158,381	0
Unreserved:			
Designated:			
Designated For Sick/Vacation Leave	1,706,196	0	0
Undesignated, Reported In:			
General Fund	8,902,088	0	0
Special Revenue Funds	0	610,853	0
Debt Service Funds	0	0	1,076,693
Capital Projects Funds	0	0	0
Total Fund Balances	<u>25,128,922</u>	<u>1,769,234</u>	<u>1,076,693</u>
Total Liabilities And Fund Balances	<u>\$32,250,463</u>	<u>\$3,115,756</u>	<u>\$1,348,292</u>

See Accompanying Notes to the Basic Financial Statements

Capital Improvement	Nonmajor Funds	Total Governmental Funds
\$5,019,383	\$3,621,887	\$36,496,724
0	420,259	420,259
0	266,821	2,133,784
0	0	129,402
0	0	3,847,633
0	0	424,238
0	0	257,206
0	0	89,728
0	65,627	1,991,095
0	0	222,275
0	0	96,144
0	575,286	575,286
<u>\$5,019,383</u>	<u>\$4,949,880</u>	<u>\$46,683,774</u>
\$359	\$52,789	\$537,429
222,838	16,472	1,119,047
0	58	340,621
0	0	89,728
34,123	0	141,837
0	217,519	673,656
0	898,545	7,280,047
<u>257,320</u>	<u>1,185,383</u>	<u>10,182,365</u>
197,569	489,736	16,366,324
0	0	1,706,196
0	0	8,902,088
0	2,875,805	3,486,658
0	190,022	1,266,715
4,564,494	208,934	4,773,428
<u>4,762,063</u>	<u>3,764,497</u>	<u>36,501,409</u>
<u>\$5,019,383</u>	<u>\$4,949,880</u>	<u>\$46,683,774</u>

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City of Gahanna, Ohio
 Reconciliation Of Total Governmental Fund Balances To
 Net Assets Of Governmental Activities
 December 31, 2006

Total Governmental Fund Balances		\$36,501,409
 <i>Amounts reported for governmental activities in the Statement Of Net Assets are different because:</i>		
 Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	15,036,399	
Construction In Progress	20,620,479	
Other Capital Assets	78,445,632	
Accumulated Depreciation	<u>(49,932,850)</u>	
		64,169,660
 Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	108,842	
Other Local Taxes	70,627	
Municipal Income Taxes	2,624,522	
Accounts Receivable	10,613	
Accrued Interest	195,901	
Intergovernmental	<u>1,669,314</u>	
		4,679,819
 Bond issuance costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis.		
		114,839
 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	(52,477)	
Premiums On Refunding Bonds	(319,296)	
General Obligation Bonds	(14,056,350)	
OPWC Loan	(957,137)	
Capital Leases Payable	(103,848)	
Compensated Absences	(1,790,645)	
Compensatory Time Payable	<u>(127,844)</u>	
		<u>(17,407,597)</u>
 Net Assets Of Governmental Activities		 <u><u>\$88,058,130</u></u>

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, 2006

	General	Street Maintenance and Repair	Bond Retirement
<u>Revenues:</u>			
Property Taxes	\$1,509,335	\$0	\$241,675
Municipal Income Taxes	14,560,379	0	0
Other Local Taxes	754,481	0	0
Intergovernmental	4,968,959	1,513,580	29,791
Charges For Services	769,706	27,311	0
Licenses And Permits	331,723	0	0
Fines And Forfeitures	454,574	0	0
Interest	2,333,306	133,036	0
Increase In Fair Value Of Investments	206,803	0	0
Rent	37,783	0	0
Contributions And Donations	12,062	0	0
Miscellaneous	92,735	0	15
Total Revenues	26,031,846	1,673,927	271,481
<u>Expenditures:</u>			
Current Operations And Maintenance:			
Security Of Persons And Property	6,623,883	0	0
Public Health	184,719	0	0
Leisure Time Activities	2,044,706	0	0
Community Development	2,963,663	0	0
Basic Utility Services	1,177	0	0
General Government	2,173,456	0	0
Transportation	1,474,178	712,323	0
Capital Outlay	11,552,382	2,276,584	0
Debt Service:			
Principal Retirement	24,080	0	805,047
Interest And Fiscal Charges	5,478	0	673,255
Total Expenditures	27,047,722	2,988,907	1,478,302
Excess Of Revenues Under Expenditures	(1,015,876)	(1,314,980)	(1,206,821)
<u>Other Financing Sources (Uses):</u>			
Proceeds Of Loans	957,137	0	0
Inception Of Capital Lease	100,346	0	0
Transfers In	464,601	258,980	1,029,309
Transfers Out	(5,076,242)	(419,735)	0
Total Other Financing Sources (Uses)	(3,554,158)	(160,755)	1,029,309
Net Change In Fund Balances	(4,570,034)	(1,475,735)	(177,512)
Fund Balances At Beginning Of Year	29,698,956	3,244,969	1,254,205
Fund Balances At End Of Year	\$25,128,922	\$1,769,234	\$1,076,693

See Accompanying Notes To The Basic Financial Statements

Capital Improvement	Nonmajor Funds	Total Governmental Funds
\$0	\$250,009	\$2,001,019
0	0	14,560,379
0	0	754,481
0	909,670	7,422,000
0	0	797,017
0	31,818	363,541
0	59,279	513,853
0	0	2,466,342
0	0	206,803
0	102,628	140,411
0	0	12,062
0	0	92,750
0	1,353,404	29,330,658
0	1,153,801	7,777,684
0	0	184,719
0	0	2,044,706
0	302,900	3,266,563
0	7,763	8,940
0	213,517	2,386,973
0	39,977	2,226,478
632,325	383,521	14,844,812
0	0	829,127
0	0	678,733
632,325	2,101,479	34,248,735
(632,325)	(748,075)	(4,918,077)
0	0	957,137
0	0	100,346
2,030,000	619,000	4,401,890
0	(485,814)	(5,981,791)
2,030,000	133,186	(522,418)
1,397,675	(614,889)	(5,440,495)
3,364,388	4,379,386	41,941,904
\$4,762,063	\$3,764,497	\$36,501,409

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, 2006

Net Change in Fund Balances - Total Governmental Funds		(\$5,440,495)
<i>Amounts reported for governmental activities in the Statement Of Activities are different because:</i>		
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	3,133,914	
Construction In Progress Additions	9,656,483	
Depreciation	<u>(3,058,480)</u>	
Excess Of Capital Outlay Over Depreciation Expense		9,731,917
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:		
Loss On Disposal Of Capital Assets		(49,909)
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	805,047	
Capital Lease Principal Payments	<u>24,080</u>	
		829,127
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	11,747	
Other Local Taxes	44,261	
Municipal Income Taxes	148,631	
Charges for Services	(207)	
Interest	77,510	
Intergovernmental	<u>(170,413)</u>	
		111,529
Long-term debt was considered to be enterprise debt in the current year. A transfer was made to move the proceeds received in the prior year from the governmental funds to the enterprise funds.		
		298,603
Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement Of Net Assets, the lease obligation is reported as a liability.		
		(100,346)
The issuance of long-term debt provides current financial resources to governmental funds, but in the Statement Of Net Assets, the debt is reported as a liability.		
OPWC Loan Payable		(957,137)
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:		
Decrease In Accrued Interest	4,191	
Amortization Of Premium On General Obligation Bonds	13,350	
Amortization Of Bond Issuance Costs (Deferred Charges)	<u>(4,802)</u>	
		12,739
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	(123,676)	
Increase In Compensatory Time Payable	<u>(19,956)</u>	
		(143,632)
Change In Net Assets Of Governmental Activities		<u><u>\$4,292,396</u></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)
General Fund
For The Year Ended December 31, 2006

	Original Budget	Revised Budget	Budgetary Actual	Variance Positive (Negative)
<u>Revenues:</u>				
Property Taxes	\$1,474,975	\$1,509,383	\$1,509,335	(\$48)
Municipal Income Taxes	13,100,000	14,418,585	14,418,136	(449)
Other Local Taxes	707,600	777,736	777,712	(24)
Intergovernmental	5,682,990	5,281,612	5,284,719	3,107
Charges For Services	2,210,701	881,761	767,806	(113,955)
Licenses And Permits	469,328	331,943	331,933	(10)
Fines And Forfeitures	399,775	456,014	456,000	(14)
Interest	786,000	2,313,366	2,313,294	(72)
Rent	15,000	37,784	37,783	(1)
Contributions And Donations	0	12,062	12,062	0
Miscellaneous	24,000	68,884	86,284	17,400
Total Revenues	24,870,369	26,089,130	25,995,064	(94,066)
<u>Expenditures:</u>				
Current Operations And Maintenance:				
Security Of Persons And Property	7,012,329	6,985,444	6,662,651	322,793
Public Health	168,100	187,970	184,997	2,973
Leisure Time Activities	2,324,496	2,331,167	2,142,657	188,510
Community Development	4,350,348	4,425,350	4,195,216	230,134
Basic Utility Services	1,749,307	1,749,302	245,580	1,503,722
General Government	4,466,114	4,494,395	3,528,078	966,317
Transportation	1,782,544	1,858,589	1,672,718	185,871
Capital Outlay	18,403,390	23,215,172	23,102,507	112,665
Total Expenditures	40,256,628	45,247,389	41,734,404	3,512,985
Excess Of Revenues Over (Under) Expenditures	(15,386,259)	(19,158,259)	(15,739,340)	3,418,919
<u>Other Financing Sources (Uses):</u>				
Proceeds Of Loans	0	957,137	957,137	0
Proceeds From Sale Of Capital Assets	10,000	17,637	0	(17,637)
Transfers In	1,305,601	1,173,563	464,601	(708,962)
Transfers Out	(1,859,537)	(5,241,999)	(5,076,242)	165,757
Total Other Financing Sources (Uses)	(543,936)	(3,093,662)	(3,654,504)	(560,842)
Net Change In Fund Balance	(15,930,195)	(22,251,921)	(19,393,844)	2,858,077
Fund Balance At Beginning Of Year	12,602,155	12,602,155	12,602,155	0
Prior Year Encumbrances	16,058,125	16,058,125	16,058,125	0
Fund Balance At End Of Year	\$12,730,085	\$6,408,359	\$9,266,436	\$2,858,077

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)
Street Maintenance and Repair Special Revenue Fund
For The Year Ended December 31, 2006

	Original Budget	Revised Budget	Budgetary Actual	Variance Positive (Negative)
<u>Revenues:</u>				
Intergovernmental	\$1,740,825	\$1,288,069	\$1,523,330	\$235,261
Charges For Services	22,250	23,093	27,311	4,218
Interest	0	112,490	133,036	20,546
<i>Total Revenues</i>	<u>1,763,075</u>	<u>1,423,652</u>	<u>1,683,677</u>	<u>260,025</u>
<u>Expenditures:</u>				
Current Operations And Maintenance:				
Transportation	984,089	988,150	916,434	71,716
Capital Outlay	3,214,296	3,599,212	3,265,199	334,013
<i>Total Expenditures</i>	<u>4,198,385</u>	<u>4,587,362</u>	<u>4,181,633</u>	<u>405,729</u>
Excess Of Revenues Over (Under) Expenditures	<u>(2,435,310)</u>	<u>(3,163,710)</u>	<u>(2,497,956)</u>	<u>665,754</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	7,100	218,983	258,980	39,997
Transfers Out	(131,047)	(429,650)	(419,735)	9,915
<i>Total Other Financing Sources (Uses)</i>	<u>(123,947)</u>	<u>(210,667)</u>	<u>(160,755)</u>	<u>49,912</u>
<i>Net Change In Fund Balance</i>	(2,559,257)	(3,374,377)	(2,658,711)	715,666
<i>Fund Balance At Beginning Of Year</i>	617,138	617,138	617,138	0
<i>Prior Year Encumbrances</i>	<u>2,559,334</u>	<u>2,559,334</u>	<u>2,559,334</u>	<u>0</u>
<i>Fund Balance At End Of Year</i>	<u><u>\$617,215</u></u>	<u><u>(\$197,905)</u></u>	<u><u>\$517,761</u></u>	<u><u>\$715,666</u></u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Fund Net Assets
Enterprise Funds
December 31, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<u>Assets:</u>				
<u>Current Assets:</u>				
Equity in Pooled Cash And Cash Equivalents	\$5,414,759	\$9,359,278	\$2,004,498	\$16,778,535
Accounts Receivable	902,711	1,718,949	184,113	2,805,773
Restricted Assets:				
Cash and Cash Equivalents with				
Escrow Agents	6,796	14,968	0	21,764
Prepaid Items	2,352	2,887	0	5,239
Materials And Supplies Inventory	16,278	16,278	0	32,556
<i>Total Current Assets</i>	<u>6,342,896</u>	<u>11,112,360</u>	<u>2,188,611</u>	<u>19,643,867</u>
<u>Non-Current Assets:</u>				
Land And Construction In Progress	843,950	953,856	576,116	2,373,922
Depreciable Capital Assets, Net	24,719,002	15,006,997	9,899,093	49,625,092
<i>Total Non-Current Assets</i>	<u>25,562,952</u>	<u>15,960,853</u>	<u>10,475,209</u>	<u>51,999,014</u>
<i>Total Assets</i>	<u>31,905,848</u>	<u>27,073,213</u>	<u>12,663,820</u>	<u>71,642,881</u>
<u>Liabilities:</u>				
<u>Current Liabilities:</u>				
Accounts Payable	45,637	17,301	11,503	74,441
Contracts Payable	2,800	2,950	182,868	188,618
Accrued Wages	9,307	9,256	5,440	24,003
Retainage Payable	6,796	14,968	0	21,764
Due To Other Governments	479,551	902,989	10,887	1,393,427
Accrued Interest Payable	1,886	0	1,063	2,949
Compensated Absences Payable	8,990	8,990	5,442	23,422
Compensatory Time Payable	3,286	3,286	1,994	8,566
General Obligation Bonds Payable	190,000	0	10,539	200,539
OPWC Loan Payable	0	10,204	0	10,204
<i>Total Current Liabilities</i>	<u>748,253</u>	<u>969,944</u>	<u>229,736</u>	<u>1,947,933</u>
<u>Long-Term Liabilities (Net Of Current Portion):</u>				
General Obligation Bonds Payable	200,000	0	278,111	478,111
OPWC Loan Payable	0	62,911	0	62,911
<i>Total Long-Term Liabilities</i>	<u>200,000</u>	<u>62,911</u>	<u>278,111</u>	<u>541,022</u>
<i>Total Liabilities</i>	<u>948,253</u>	<u>1,032,855</u>	<u>507,847</u>	<u>2,488,955</u>
<u>Net Assets:</u>				
Invested In Capital Assets, Net Of Related Debt	25,172,952	15,887,738	10,186,559	51,247,249
Unrestricted	5,784,643	10,152,620	1,969,414	17,906,677
<i>Total Net Assets</i>	<u>\$30,957,595</u>	<u>\$26,040,358</u>	<u>\$12,155,973</u>	<u>\$69,153,926</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, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<u>Operating Revenues:</u>				
Charges For Services	\$3,656,851	\$6,760,965	\$685,795	\$11,103,611
Miscellaneous	41,681	0	0	41,681
<i>Total Operating Revenues</i>	<u>3,698,532</u>	<u>6,760,965</u>	<u>685,795</u>	<u>11,145,292</u>
<u>Operating Expenses:</u>				
Salaries	253,608	255,317	175,140	684,065
Fringe Benefits	95,712	95,166	49,343	240,221
Purchased Services	3,012,093	4,768,631	206,221	7,986,945
Materials And Supplies	256,151	43,021	1,472	300,644
Depreciation	644,650	391,916	220,272	1,256,838
Other Operating Expenses	120,217	204,129	23,470	347,816
<i>Total Operating Expenses</i>	<u>4,382,431</u>	<u>5,758,180</u>	<u>675,918</u>	<u>10,816,529</u>
Operating Income (Loss)	<u>(683,899)</u>	<u>1,002,785</u>	<u>9,877</u>	<u>328,763</u>
<u>Non-Operating Revenues (Expenses):</u>				
Interest Revenue	0	0	5,233	5,233
Other Non-Operating Revenues	17,885	0	0	17,885
Interest And Fiscal Charges	(26,863)	(2,818)	(4,325)	(34,006)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(8,978)</u>	<u>(2,818)</u>	<u>908</u>	<u>(10,888)</u>
Income (Loss) Before Transfers	(692,877)	999,967	10,785	317,875
Transfers In	0	0	1,287,298	1,287,298
Transfers Out	(3,000)	(3,000)	0	(6,000)
<i>Change In Net Assets</i>	(695,877)	996,967	1,298,083	1,599,173
<i>Net Assets At Beginning Of Year - Restated (Note 3)</i>	<u>31,653,472</u>	<u>25,043,391</u>	<u>10,857,890</u>	<u>67,554,753</u>
<i>Net Assets At End Of Year</i>	<u>\$30,957,595</u>	<u>\$26,040,358</u>	<u>\$12,155,973</u>	<u>\$69,153,926</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, 2006

	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<u>Increases (Decreases) In Cash And Cash Equivalents:</u>				
<u>Cash Flows From Operating Activities:</u>				
Cash Received From Customers	\$3,635,555	\$6,573,974	\$678,037	\$10,887,566
Cash Payments For Personal Services	(336,212)	(334,510)	(210,325)	(881,047)
Cash Payments To Suppliers For Goods And Services	(3,442,775)	(4,792,592)	(207,789)	(8,443,156)
Cash Payments For Other Operating Expenses	(122,685)	(278,727)	(19,580)	(420,992)
Other Operating Revenues	41,681	0	0	41,681
Other Non-Operating Revenue	17,885	0	0	17,885
Net Cash Provided By (Used For) Operating Activities	<u>(206,551)</u>	<u>1,168,145</u>	<u>240,343</u>	<u>1,201,937</u>
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfers To Other Funds	(3,000)	(3,000)	0	(6,000)
Transfers From Other Funds	0	0	1,585,901	1,585,901
Net Cash Provided By (Used For) Noncapital Financing Activities	<u>(3,000)</u>	<u>(3,000)</u>	<u>1,585,901</u>	<u>1,579,901</u>
<u>Cash Flows From Capital And Related Financing Activities:</u>				
Acquisition Of Capital Assets	(471,938)	(674,116)	(464,290)	(1,610,344)
Principal Paid On General Obligation Bonds	(180,000)	0	(9,953)	(189,953)
Principal Paid On OPWC Loan	0	(9,856)	0	(9,856)
Interest And Fiscal Charges Paid On General Obligation Bonds	(27,710)	0	(3,262)	(30,972)
Interest And Fiscal Charges Paid On OPWC Loan	0	(2,818)	0	(2,818)
Net Cash Used For Capital And Related Financing Activities	<u>(679,648)</u>	<u>(686,790)</u>	<u>(477,505)</u>	<u>(1,843,943)</u>
<u>Cash Flows From Investing Activities:</u>				
Interest	0	0	5,233	5,233
Net Increase (Decrease) In Cash And Cash Equivalents	<u>(889,199)</u>	<u>478,355</u>	<u>1,353,972</u>	<u>943,128</u>
Cash And Cash Equivalents At Beginning Of Year	<u>6,303,958</u>	<u>8,880,923</u>	<u>650,526</u>	<u>15,835,407</u>
Cash And Cash Equivalents At End Of Year	<u>\$5,414,759</u>	<u>\$9,359,278</u>	<u>\$2,004,498</u>	<u>\$16,778,535</u>

(Continued)

City of Gahanna, Ohio
Statement Of Cash Flows
Enterprise Funds
For The Year Ended December 31, 2006
(Continued)

	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<i>Reconciliation Of Operating Income (Loss) To</i>				
<i><u>Net Cash Provided By (Used For) Operating Activities:</u></i>				
Operating Income (Loss)	(\$683,899)	\$1,002,785	\$9,877	\$328,763
<i>Adjustments To Reconcile Operating Income (Loss) To</i>				
<i><u>Net Cash Provided By (Used For) Operating Activities:</u></i>				
Depreciation	644,650	391,916	220,272	1,256,838
Other Non-Operating Revenues	17,885	0	0	17,885
Changes In Assets And Liabilities:				
Increase In Accounts Receivable	(24,241)	(186,991)	(7,758)	(218,990)
Decrease In Prepaid Items	2,909	2,374	0	5,283
Increase In Materials And Supplies Inventory	(796)	(796)	0	(1,592)
Decrease In Due From Other Funds	1,298	0	0	1,298
Decrease In Special Assessments Receivable	1,647	0	0	1,647
Increase In Accounts Payable	21,363	28,683	3,794	53,840
Increase In Accrued Wages Payable	9,307	9,256	5,440	24,003
Increase (Decrease) In Contracts Payable	(1,177)	0	0	(1,177)
Increase (Decrease) In Due To Other Governments	(196,118)	(79,703)	8,059	(267,762)
Increase In Compensated Absences Payable	507	507	744	1,758
Increase (Decrease) In Compensatory Time Payable	114	114	(85)	143
	<u>114</u>	<u>114</u>	<u>(85)</u>	<u>143</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>(\$206,551)</u>	<u>\$1,168,145</u>	<u>\$240,343</u>	<u>\$1,201,937</u>

See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Statement Of Fiduciary
Assets And Liabilities
Agency Funds
December 31, 2006

Assets:

Equity In Pooled Cash And Cash Equivalents	\$387,144
Cash And Cash Equivalents In Segregated Accounts	<u>731,608</u>

<i>Total Assets</i>	<u><u>\$1,118,752</u></u>
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Liabilities:

Undistributed Assets	\$734,905
Deposits Held And Due To Others	<u>383,847</u>

<i>Total Liabilities</i>	<u><u>\$1,118,752</u></u>
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See Accompanying Notes To The Basic Financial Statements

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Gahanna (the “City”) 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 may 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 (the “Pool”), a risk sharing pool which provides health insurance. The Pool, which commenced business on January 1, 1992, has six 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, and again on January 1, 2007. 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 19.

The City participates in a joint operation with the Gahanna Jefferson Public School District. These organizations jointly operate a maintenance facility and fueling station. See Note 20.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City 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 reporting 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 Pronouncements 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, 2006

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.

Street Maintenance and Repair Fund – This fund accounts for ninety-two and one-half percent of the State gasoline tax and motor vehicle registration fees designated for street maintenance and repair.

Bond Retirement Fund – This fund accounts for the resources that are used for payment of principal and interest and fiscal charges on general obligation debt and notes.

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

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, 2006

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.

Storm Water Fund – This fund is used to account for charges assessed to residents and businesses of the City for the improvement of the storm water system.

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 City when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. 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 the 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 of 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, 2006

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. The 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 agency 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. “Measurable” means the amount of the transaction can be determined and “available” means 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, 2006

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: weed assessments, court fines, 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, 2006, but were levied to finance 2007 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.

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 appropriation 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 appropriation 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, function, object level for all funds.

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 effect at the time final appropriations were passed by Council.

The appropriation 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 appropriation 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, including all supplemental appropriations.

F. Cash And Cash Equivalents

To improve cash management, cash received by the City is pooled. 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 City has permissive motor vehicle license monies which are held by the Franklin County Engineer and are distributed to the City for approved projects. The balance in this account is presented as "Cash and Cash Equivalents With Fiscal Agents". The City also has an escrow account to hold retainage amounts owed to contractors. The balance in this account is presented as "Restricted Assets: Cash And Cash Equivalents With Escrow Agents". 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, 2006

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

During the year, investments were limited to Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Notes, Federal Home Loan Bank Bonds, Federal Home Loan Bank Consolidation Bonds, Federal Home Loan Bank Call Step Bonds, Federal National Mortgage Association Bonds, Federal National Mortgage Association Notes, Federal National Mortgage Association Consolidation Note, Federal National Mortgage Association Series 1989-27 Class Y GTD Pass Thru Certificate, Federal Farm Credit Bank Consolidation Bonds, Federal Farm Credit Bank Bonds, Federal Farm Credit Bank Notes, Eaton Vance Prime Mutual Fund, Nationwide Platinum Annuity, negotiable certificates of deposit, 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 Nationwide Platinum Annuity is valued at cost, including accumulated interest to date.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2006. 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, 2006.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2006 amounted to \$2,333,306, which includes \$1,186,686 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 expended/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, 2006, 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 is reported in the year in which services are consumed.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

I. Capital Assets

General capital assets are capital assets that are associated with governmental activities. These assets 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.

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 reported 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
Infrastructure:	
Bridges And Culverts	50 years
Sidewalks	20 years
Streets And Curbs	20-30 years
Street Lighting	15 years
Traffic Control Lighting	10 years
Storm Water Lines	65 years
Sewer And Water Lines	65 years

In the initial capitalization of general infrastructure assets, the City chose to include all such items regardless of their acquisition date.

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

J. Compensated Absences

Vacation benefits and compensatory time 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 time 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.

Compensatory time is accumulated by employees at the applicable overtime rate for each hour of overtime worked. The City will record the liability "Compensatory Time Payable" for the balance carried over at year-end. City employees must use their compensatory time balance that has been carried forward by the following year-end.

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 bonds, loans and capital leases are recognized as liabilities on the governmental fund financial statements when due.

L. Unamortized Bond Issuance Costs

Issuance costs reported on the government-wide statements are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method and are recorded as deferred charges.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

M. 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.

N. 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 the payment of accumulated vacation/sick leave balances upon separation from the City.

O. Internal Activity

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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.

P. 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. 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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

The government-wide Statement of Net Assets reports \$9,466,486 of restricted net assets, \$0 of which is restricted by enabling legislation.

Q. 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, sewer and storm water 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 non-operating.

R. 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 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS

A. Change in Accounting Principles

For 2006, the City has implemented *GASB Statement No. 47, “Accounting for Termination Benefits”*.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the City’s financial statements for 2006.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS *(continued)*

B. Restatement of Prior Year Net Assets

In 2006, errors were found in the reporting of construction in progress and depreciable capital assets in the prior year. A restatement is necessary to correct these amounts.

	Governmental Activities			
Net Assets, December 31, 2005	\$85,440,052			
Restatement Of Nondepreciable Capital Assets	(1,666,354)			
Restatement Of Depreciable Capital Assets, Net	(7,964)			
Net Assets, December 31, 2005 As Restated	\$83,765,734			

	Business-Type Activities			
	Water Fund	Sewer Fund	Storm Water Fund	Total
Net Assets, December 31, 2005	\$31,678,398	\$25,074,891	\$10,860,259	\$67,613,548
Restatement Of Nondepreciable Capital Assets	(24,926)	(31,500)	0	(56,426)
Restatement Of Depreciable Capital Assets, Net	0	0	(2,369)	(2,369)
Net Assets, December 31, 2005 As Restated	\$31,653,472	\$25,043,391	\$10,857,890	\$67,554,753

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 Street Maintenance and Repair Special Revenue Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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).

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (continued)

- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- (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.
- (e) Investments are reported at fair value (GAAP) rather than cost (budget).

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 Street Maintenance and Repair Special Revenue Fund are as follows:

Net Change in Fund Balance		
	General	Street Maintenance and Repair
GAAP Basis	(\$4,570,034)	(\$1,475,735)
<u>Increases (Decreases) Due To:</u>		
Revenue Accruals	150,807	9,750
Expenditure Accruals	579,612	643,604
Encumbrances Outstanding At Year-end (Budget Basis)	(15,366,640)	(1,836,330)
Unrecorded Cash - 2005	153,181	0
Unrecorded Cash - 2006	(133,967)	0
Change In Fair Value Of Investments - 2005	(459,084)	0
Change In Fair Value Of Investments - 2006	252,281	0
Budget Basis	(\$19,393,844)	(\$2,658,711)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS *(continued)*

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.

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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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; and
3. Obligations of the City.

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

	Investment Maturities (in Years)				Call Date
	Fair Value	Less than 1	1 - 2	2 - 5	
Federal Home Loan Mortgage Corporation Notes	\$3,282,719	\$932,197	\$646,682	\$1,703,840	1/09/07 to 5/28/07
Federal Home Loan Mortgage Corporation Bonds	947,880	98,592	849,288	0	2/27/07 to 4/15/07
Federal Home Loan Bank Notes	1,488,350	562,502	234,075	691,773	
Federal Home Loan Bank Bonds	2,894,599	1,385,596	942,500	566,503	2/25/07 to 3/28/2007
Federal Home Loan Bank Consolidation Bonds	5,631,698	2,673,219	1,210,415	1,748,064	1/1/07 to 6/23/08
Federal Home Loan Bank Call Step Bonds	2,691,211	248,672	1,744,973	697,566	1/18/07 to 3/30/07
Federal National Mortgage Association Bonds	4,214,044	994,142	467,813	2,752,089	1/20/07 to 4/1/07
Federal National Mortgage Association Notes	5,690,814	616,632	1,923,949	3,150,233	1/12/2007 to 11/23/07
Federal National Mortgage Association Consolidation Note	399,000	0	399,000	0	2/22/2007
Federal National Mortgage Association Series 1989-27 Class Y GTD Pass Thru Certificate	17,701	0	0	17,701	
Federal Farm Credit Bank Consolidation Bonds	127,547	0	29,391	98,156	1/11/2007
Federal Farm Credit Bank Bonds	14,873	14,873	0	0	
Federal Farm Credit Bank Notes	14,780	14,780	0	0	
Eaton Vance Prime Mutual Fund	1,377,623	1,377,623	0	0	
Nationwide Platinum Annuity	1,005,981	1,005,981	0	0	
Negotiable Certificates Of Deposits	1,167,836	940,507	128,104	99,225	
STAROhio	20,431,018	20,431,018	0	0	
Totals	<u>\$51,397,674</u>	<u>\$31,296,334</u>	<u>\$8,576,190</u>	<u>\$11,525,150</u>	

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS *(continued)*

Interest Rate Risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Director of Finance, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the City, the City will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk: The Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Mortgage Corporation Bonds, Federal Home Loan Bank Notes, Federal Home Loan Bank Bonds, Federal Home Loan Bank Consolidation Bonds, Federal Home Loan Bank Call Step Bonds, Federal National Mortgage Association Bonds, Federal National Mortgage Association Notes, Federal National Mortgage Association Consolidation Note, Federal Farm Credit Bank Consolidation Bonds, Federal Farm Credit Bank Bonds, and Federal Farm Credit Bank Notes carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The Federal National Mortgage Association Series 1989-27 Class Y GTD Pass Thru Certificate carries a rating of AAA by Standard and Poor's. The Eaton Vance Prime Mutual Fund, and the Nationwide Platinum Annuity carry a rating of AA by Standard and Poor's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City does not have a policy that addresses credit risk.

Concentration of Credit Risk: The City places no limit on the amount it may invest in any one issuer. The City's investments in Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Bonds, Federal Home Loan Bank Consolidation Bonds, Federal Home Loan Bank Call Step Bonds, Federal National Mortgage Association Bonds, and Federal National Mortgage Association Notes represents 6.39 percent, 5.63 percent, 10.96 percent, 5.24 percent, 8.20 percent, and 11.07 percent, respectively, of the City's total investments.

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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 7 - PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2006, was \$2.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property:	
Agricultural/Residential	\$760,782,830
Commercial/Industrial/Mineral	149,785,640
Public Utility Real	19,560
Tangible Personal Property:	
General Business	18,119,579
Public Utility	10,674,100
Total Assessed Value	<u><u>\$939,381,709</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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 7 - PROPERTY TAX (continued)

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 by 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, 2006, 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 2006 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.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, consisted of property, other local, and income taxes, accounts, interest on investments, and intergovernmental receivables arising from grants, entitlements or shared revenues. All receivables are considered fully collectible and will be received within one year with the exception of property taxes and income taxes. Water, sewer, and storm water charges receivable which, if delinquent, may be certified and collected as a special assessment, are subject to foreclosure for nonpayment. Property and income taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year.

A summary of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Local Government	\$872,784
Local Government Revenue Assistance	76,407
Liquor Permits	34,568
Estate Tax	81,174
Homestead And Rollback	113,059
Franklin County Auditor	3,010
Franklin County Clerk Of Courts	74
Franklin County Municipal Court	617
Gasoline Tax	351,993
Permissive Tax	128,852
Cents Per Gallon Tax	199,739
Motor Vehicle License Tax	128,818
Total Intergovernmental Receivable	\$1,991,095

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 9 - CAPITAL ASSETS

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

	Restated Balance At 12/31/2005	Additions	Deletions	Balance At 12/31/2006
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated:				
Land	\$14,131,919	\$904,480	\$0	\$15,036,399
Construction In Progress	11,197,497	9,656,483	(233,501)	20,620,479
Total Capital Assets, Not Being Depreciated	<u>25,329,416</u>	<u>10,560,963</u>	<u>(233,501)</u>	<u>35,656,878</u>
Depreciable Capital Assets:				
Buildings	8,520,244	194,622	0	8,714,866
Improvements Other Than Buildings	4,998,289	79,821	0	5,078,110
Machinery And Equipment	4,766,434	659,978	(267,421)	5,158,991
Vehicles	2,822,805	192,535	0	3,015,340
Infrastructure:				
Bridges And Culverts	364,598	0	0	364,598
Sidewalks	2,937,769	16,495	0	2,954,264
Streets And Curbs	45,411,749	1,304,744	0	46,716,493
Street Lighting	1,727,058	14,740	0	1,741,798
Traffic Control Lighting	4,701,172	0	0	4,701,172
Total Depreciable Capital Assets	<u>76,250,118</u>	<u>2,462,935</u>	<u>(267,421)</u>	<u>78,445,632</u>
Less Accumulated Depreciation:				
Buildings	(2,221,204)	(163,460)	0	(2,384,664)
Improvements Other Than Buildings	(2,274,939)	(203,726)	0	(2,478,665)
Machinery And Equipment	(2,319,833)	(625,257)	217,512	(2,727,578)
Vehicles	(1,960,242)	(268,039)	0	(2,228,281)
Infrastructure:				
Bridges And Culverts	(18,046)	(7,293)	0	(25,339)
Sidewalks	(2,095,247)	(96,412)	0	(2,191,659)
Streets And Curbs	(31,764,892)	(1,190,600)	0	(32,955,492)
Street Lighting	(1,250,857)	(79,710)	0	(1,330,567)
Traffic Control Lighting	(3,186,622)	(423,983)	0	(3,610,605)
Total Accumulated Depreciation	<u>(47,091,882)</u>	<u>(3,058,480)</u>	<u>217,512</u>	<u>(49,932,850)</u>
Depreciable Capital Assets, Net	<u>29,158,236</u>	<u>(595,545)</u>	<u>(49,909)</u>	<u>28,512,782</u>
Governmental Activities Capital Assets, Net	<u>\$54,487,652</u>	<u>\$9,965,418</u>	<u>(\$283,410)</u>	<u>\$64,169,660</u>

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 9 - CAPITAL ASSETS (continued)

	Restated Balance At 12/31/2005	Additions	Deletions	Balance At 12/31/2006
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$39,210	\$0	\$0	\$39,210
Construction In Progress	1,154,792	1,503,262	(323,342)	2,334,712
Total Capital Assets, Not Being Depreciated	1,194,002	1,503,262	(323,342)	2,373,922
Depreciable Capital Assets:				
Buildings	991,000	0	0	991,000
Improvements Other Than Buildings	55,800	0	0	55,800
Machinery And Equipment	630,354	24,025	(7,702)	646,677
Vehicles	41,264	234,342	0	275,606
Infrastructure:				
Storm Sewer Lines	12,814,401	0	0	12,814,401
Water Lines	38,931,923	0	0	38,931,923
Sewer Lines	22,753,933	315,053	0	23,068,986
Total Depreciable Capital Assets	76,218,675	573,420	(7,702)	76,784,393
Less Accumulated Depreciation:				
Buildings	(301,801)	(28,370)	0	(330,171)
Improvements Other Than Buildings	(4,275)	(2,790)	0	(7,065)
Machinery And Equipment	(216,721)	(41,892)	5,776	(252,837)
Vehicles	(3,039)	(29,352)	0	(32,391)
Infrastructure:				
Storm Sewer Lines	(2,875,144)	(196,658)		(3,071,802)
Water Lines	(14,377,726)	(603,876)	0	(14,981,602)
Sewer Lines	(8,129,533)	(353,900)	0	(8,483,433)
Total Accumulated Depreciation	(25,908,239)	(1,256,838)	5,776	(27,159,301)
Depreciable Capital Assets, Net	50,310,436	(683,418)	(1,926)	49,625,092
Business-Type Activities Capital Assets, Net	\$51,504,438	\$819,844	(\$325,268)	\$51,999,014

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental programs as follows:

Security Of Persons And Property	\$288,754
Leisure Time Activities	315,240
Community Development	235,118
General Government	240,299
Transportation	1,979,069
Total Depreciation Expense	<u><u>\$3,058,480</u></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) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 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 2006 was 9.2 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.43 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$549,913, \$525,182, and \$470,034, respectively; 74.80 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$17,652 made by the City and \$11,597 made by the plan members.

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.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the City is required to contribute 11.75 percent for police officers. The City has no firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police were \$465,270 for the year ended December 31, 2006, \$463,228 for the year ended December 31, 2005, and \$409,484 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 71.86 percent for police officers has been contributed for 2006.

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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.5 percent of covered payroll was the portion that was used to fund health care.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 11 - POSTEMPLOYMENT BENEFITS *(continued)*

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest individual actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.5 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .5 and 6.0 percent annually for the next nine years and 4.0 percent annually after nine years.

All investments are carried at market value. 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual City contributions for 2006 which were used to fund postemployment benefits were \$268,979. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 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. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police And Fire Pension Fund

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

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 11 - POSTEMPLOYMENT BENEFITS *(continued)*

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 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The City of Gahanna has no fire personnel; therefore, OP&F covers police personnel only.

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$306,880 for police. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

Vacation leave is earned bi-weekly at a rate which varies depending upon length of service and standard work week. Current policy allows the unused balance to be accumulated at levels which depend upon negotiated agreements. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned bi-weekly 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. In lieu of payment, an employee may elect to transfer the full balance or a portion of earned unused sick leave 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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 12 - EMPLOYEE BENEFITS (continued)

B. Deferred Compensation Plan

Employees of the City may elect to participate in the ING Life Insurance and Annuity Company Plan, or the Ohio Public Employees Deferred Compensation Program 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.

C. Health Care Benefits

The City provides health care benefits through the Central Ohio Health Care Consortium (the "Pool"), a risk-sharing pool that provided basic hospital, surgical and prescription drug coverage. See Note 19 for further information. Dental, vision, and life insurance coverage is provided by Delta Dental, Vision Service Plan, and Standard Insurance Company, respectively.

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

In 2006 and prior years, the City has entered into capitalized leases for copier equipment and a mail machine. 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 basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

The copier equipment and mail machine have been capitalized at \$125,052. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2006 totaled \$24,080 in the governmental funds.

The assets acquired through capital leases as of December 31, 2006, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Leased Equipment	<u>\$125,052</u>	<u>\$21,693</u>	<u>\$103,359</u>

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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, 2006.

Year Ending December 31,	Payments
2007	\$34,056
2008	34,056
2009	34,056
2010	13,722
Total	115,890
Less: Amount Representing Interest	(12,042)
Present Value of Minimum Lease Payments	\$103,848

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, 2006, was as follows:

Types / Issues	Restated Balance 12/31/2005	Transferred From Governmental Activities	Issued	Retired	Balance 12/31/2006	Due Within One Year
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
<u>Water Fund</u>						
1994 - Star Bank Series 4.0% to 5.85%	\$570,000	\$0	\$0	\$180,000	\$390,000	\$190,000
<u>Storm Water Fund</u>						
2005 - Creekside Phase II And Morrison Road Serial Bonds 3.25% to 5.0%	0	298,603	0	9,953	288,650	10,539
<u>Other Long-Term Obligations</u>						
1996 - OPWC Loan 3.5 %	82,971	0	0	9,856	73,115	10,204
Compensated Absences Payable	21,664	0	47,016	45,258	23,422	23,422
Total Business-Type Activities	\$674,635	\$298,603	\$47,016	\$245,067	\$775,187	\$234,165

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

Types / Issues	Restated Balance 12/31/2005	Transferred To Business-Type Activities	Issued	Retired	Balance 12/31/2006	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
1994 - Star Bank Series 4.0% to 5.85%	\$1,460,000	\$0	\$0	\$460,000	\$1,000,000	\$490,000
2005 - Creekside Phase II And Morrison Road						
Serial Bonds 3.25% to 5.0%	10,515,000	298,603	0	345,047	9,871,350	359,461
Term Bonds 4.25%	3,185,000	0	0	0	3,185,000	0
Premium On Bonds Issued	332,646	0	0	13,350	319,296	0
Total General Obligation Bonds	<u>15,492,646</u>	<u>298,603</u>	<u>0</u>	<u>818,397</u>	<u>14,375,646</u>	<u>849,461</u>
<u>Other Long-Term Obligations</u>						
2006 - OPWC Loan 0%	0	0	957,137	0	957,137	47,857
Compensated Absences	1,666,969	0	658,605	534,929	1,790,645	579,400
Capital Lease	27,582	0	100,346	24,080	103,848	28,255
Total Other Long-Term Obligations	<u>1,694,551</u>	<u>0</u>	<u>1,716,088</u>	<u>559,009</u>	<u>2,851,630</u>	<u>655,512</u>
Total Governmental Activities	<u><u>\$17,187,197</u></u>	<u><u>\$298,603</u></u>	<u><u>\$1,716,088</u></u>	<u><u>\$1,377,406</u></u>	<u><u>\$17,227,276</u></u>	<u><u>\$1,504,973</u></u>

During 2006, the City decided to pay a portion of the 2005 Creekside Phase II and Morrison Road General Obligation Bonds from the Storm Water Enterprise Fund. The City transferred the bond proceeds in the amount of \$298,603 from the Street Maintenance and Repair Special Revenue Fund to the Storm Water Enterprise Fund during the year. As a result, the transfer columns in the above tables were created to reallocate the debt obligations to business-type activities.

The City's overall legal debt margin was \$84,378,989, with an unvoted debt margin of \$37,409,904 at December 31, 2006.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

(continued)

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

<i>Year</i>	<i>Business-Type Activities</i>					
	<i>Water General</i>		<i>Stormwater General</i>		<i>Sewer OPWC Loan</i>	
	<i>Obligation Bonds</i>		<i>Obligation Bonds</i>			
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2007	\$190,000	\$17,162	\$10,539	\$12,757	\$10,204	\$2,471
2008	200,000	5,850	11,124	12,415	10,564	2,110
2009	0	0	11,124	12,053	10,936	1,737
2010	0	0	11,710	11,691	11,323	1,351
2011	0	0	11,710	11,310	11,723	951
2012-2016	0	0	66,746	49,892	18,365	646
2017-2021	0	0	83,141	33,490	0	0
2022-2026	0	0	82,556	10,569	0	0
Totals	<u>\$390,000</u>	<u>\$23,012</u>	<u>\$288,650</u>	<u>\$154,177</u>	<u>\$73,115</u>	<u>\$9,266</u>

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

<i>Year</i>	<i>Serial</i>		<i>Term</i>		<i>OPWC</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Loan</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>
2007	\$849,461	\$615,642	\$0	\$0	\$47,857
2008	883,876	574,954	0	0	95,714
2009	388,876	547,885	0	0	95,714
2010	393,290	535,247	0	0	95,714
2011	408,290	522,465	0	0	95,714
2012-2016	2,283,254	2,383,373	0	0	478,567
2017-2021	2,841,859	1,822,823	0	0	47,857
2022-2026	2,822,444	903,130	585,000	135,363	0
2027-2030	0	0	2,600,000	281,987	0
Totals	<u>\$10,871,350</u>	<u>\$7,905,519</u>	<u>\$3,185,000</u>	<u>\$417,350</u>	<u>\$957,137</u>

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

The term bonds, issued at \$3,185,000, maturing on December 1, 2026 to December 1, 2030 are subject to redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective amounts.

Year Ending December 31,	Amount
2026	\$585,000
2027	610,000
2028	635,000
2029	665,000
2030	690,000
Total	<u>\$3,185,000</u>

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.

During 2005, the City issued \$13,700,000 in general obligation bonds to provide funds for the infrastructure improvements of Morrison Road and the construction and improvements of Creekside. \$13,401,397 was issued as governmental activities general obligation bonds and \$298,603 was issued as enterprise obligation bonds. All are direct obligations and pledge the full faith and credit of the City for repayment. These bonds are 20 year serial bonds with varying amounts of principal maturing each year and a 25 year term bond. Bond payments relating to the governmental activities general obligation bonds are paid with property taxes from the Debt Service Fund as well as other non-income tax revenues. Bond payments relating to the enterprise general obligation bonds are paid from revenues from the operations of the storm water system. As of December 21, 2006, \$7,635,997 of the governmental activities bond proceeds had been spent toward the project, while the full amount of the enterprise bond proceeds had been spent.

During 1994, the City issued \$1,505,000 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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

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

C. 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.

The 2006 OPWC Loan consists of \$957,137 borrowed from the Ohio Public Works Commission for the widening of Hamilton Road project. The 10 year loan is payable with property taxes from the Debt Service Fund. As of year end, all loan proceeds had been spent.

D. Compensated Absences / Capital Leases

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

NOTE 15 – SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2006 follows:

<i>Types / Issues</i>	<i>Balance 12/31/05</i>	<i>Issued</i>	<i>Retired</i>	<i>Balance 12/31/06</i>
2005 - 4.00% Various Purpose Note	<u>\$1,000,000</u>	<u>\$0</u>	<u>\$1,000,000</u>	<u>\$0</u>

During 2005, the City issued a 4.00 percent Various Purpose Note in the amount of \$1,000,000. The note matured on October 22, 2006, and was retired from the Debt Service Fund. This note was used for the infrastructure improvements of Morrison Road and the construction and improvements of Creekside.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 16 - CONSTRUCTION COMMITMENTS

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2006, the significant outstanding construction commitments were:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Completed</u>	<u>Balance At 12/31/2006</u>
Gahanna Creekside LLC	\$14,520,781	\$10,569,543	\$3,951,238
Hamilton Road	8,252,410	7,852,329	400,081
Morrison Road - Phase II	3,078,650	2,246,353	832,297
US 62/Hamilton Road Fiber Project	564,780	523,119	41,661
Tech Center Drive	374,404	167,658	206,746
Claycraft/Morrison - Phase I	336,683	266,570	70,113
Ogden Alley Rebuild	250,000	204,922	45,078
Mill Street Construction	227,325	223,068	4,257
Ogden Alley Sanitary Sewer	227,180	166,826	60,354
Irrigation/Drainage at Golf Course	224,645	194,746	29,899
Friendship Park Shelter House	177,658	92,522	85,136
Hamilton/Granville Intersection Improvements	164,930	38,454	126,476
East Johnstown Road Sewer	27,400	2,740	24,660
Magna Quad Meter Project	25,980	12,990	12,990
Big Walnut/Mill Race Restoration	20,660	885	19,775
Mill Street/Walnut Street Signal	13,200	9,240	3,960
Total	<u>\$28,486,686</u>	<u>\$22,571,965</u>	<u>\$5,914,721</u>

NOTE 17 - 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, 2006

NOTE 18 – INTERFUND TRANSFERS

Transfers made during the year ended December 31, 2006, were as follows:

		Transfers To						
		General	Street Maintenance and Repair	Bond Retirement	Capital Improvement	Nonmajor Funds	Storm Water	Total
Transfers From	General	\$0	\$258,980	\$908,262	\$2,030,000	\$619,000	\$1,260,000	\$5,076,242
	Street Maintenance and Repair	0	0	121,047	0	0	85	121,132
	Water	3,000	0	0	0	0	0	3,000
	Sewer	3,000	0	0	0	0	0	3,000
	Nonmajor Funds	458,601	0	0	0	0	27,213	485,814
	Total	<u>\$464,601</u>	<u>\$258,980</u>	<u>\$1,029,309</u>	<u>\$2,030,000</u>	<u>\$619,000</u>	<u>\$1,287,298</u>	<u>\$5,689,188</u>

Transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfers from Nonmajor Funds to the General Fund were the result of the City performing a grant closing process. The City transferred the remaining monies of the COPS grant award to the General Fund because the General Fund paid for the hiring of additional police personnel that were covered by the grant program. The transfers from the Water and Sewer Funds to the General Fund were made for future severance payments. The transfers from the General and Street Maintenance and Repair Funds to the Bond Retirement Fund were made to service annual debt payments. The transfers from Nonmajor Funds to the Storm Water Fund were the result of the City moving the remaining unencumbered fund balance of the Storm Water Special Revenue Fund to the Storm Water Enterprise Fund.

Transfers from the Street Maintenance and Repair Fund do not equal the transfers out reported on the Statement Of Revenues, Expenditures And Changes In Fund Balances for Governmental Funds by \$298,603. This was a result of a transfer between the Street Maintenance and Repair Fund and the Storm Water Fund being eliminated to appropriately record debt obligations in the Storm Water Fund which had been reported as governmental debt obligations in the prior year.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 19 – SHARED RISK POOL

On January 1, 1992, the City joined the Central Ohio Health Care Consortium (the “Pool”), a risk-sharing pool, which provides employee health care benefits for all full-time employees who wish to participate in the Pool. The Pool consists of six political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. It is governed by a six member Board of Directors (the “Board”) consisting of a representative from each Pool participant. The Pool also entered into an agreement with an independent plan supervisor to oversee the day to day operations of the Pool, such as administration and approval of submitted claims, the payment of operating expenses incurred by the Pool and the preparation of a monthly activity report which is presented to the Board.

The City pays monthly contributions to the Pool, which are used to cover claims and administrative costs, to establish and maintain sufficient claim reserves and to purchase excess loss insurance for the Pool. The Pool 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 Pool 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 Pool for aggregate claims paid in excess of \$7,350,026 to a maximum of \$2,000,000 annually. In the event that the losses of the Pool in any year exceeds amounts paid to the Pool, 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. In the event that an entity should withdraw from the plan, the withdrawing member is required to either reimburse the Pool for claims paid on its behalf or the member must pay the claims directly.

NOTE 20 – UNDIVIDED INTEREST

On February 21, 1996, a contract was entered into between the Gahanna Jefferson Public 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, 2006

NOTE 21 – 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>	
2007	\$241,610
2008	124,981
2009	89,406
2010	48,063
2011	30,188
2012-2016	40,050
2017	988
Total Lease Receivable	<u><u>\$575,286</u></u>

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

The City of Gahanna is party to various legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

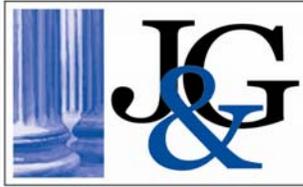
B. Federal And State Grants

For the period January 1, 2006, to December 31, 2006, 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.

City of Gahanna, Ohio
Notes To The Basic Financial Statements
For The Year Ended December 31, 2006

NOTE 23 – SUBSEQUENT EVENT

On July 31, 2007, the City issued \$11,500,000 in general obligation bonds. Of this amount, \$1,900,000 was issued for the purpose of public infrastructure improvements related to Manor Homes Development, including land acquisition, land improvements, installation of sanitary sewer line extensions, and street construction; \$3,500,000 was issued for the purpose of park improvements and acquisitions; \$2,050,000 was issued for the purpose of street improvements; \$2,000,000 was issued for the purpose of storm water improvements; and \$2,050,000 was issued for the purpose of upgrading technology infrastructure.



Julian & Grube, Inc.

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

Members of Council and Mayor
City of Gahanna
200 South Hamilton Road
Gahanna, Ohio 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, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 17, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

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

Members of Council and Mayor
City of Gahanna

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of Gahanna in a separate letter dated July 17, 2007.

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.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.

July 17, 2007, except for Note 23 which is dated July 31, 2007



Mary Taylor, CPA
Auditor of State

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
OCTOBER 2, 2007**