

Dave Yost • Auditor of State



**CITY OF GAHANNA  
FRANKLIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

City of Gahanna  
Franklin County  
200 South Hamilton Road  
Gahanna, Ohio 43230

To the Members of City Council and the Mayor:

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 City of Gahanna, Franklin County, Ohio (the City), as of and for the year ended December 31, 2010, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, Ohio, as of December 31, 2010, and the respective changes in financial position and cash flows, thereof and the budgetary comparison for the General 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 our report dated August 10, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

August 10, 2011

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

The management's discussion and analysis of the City of Gahanna's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

Key financial highlights for 2010 are as follows:

- The City restated net assets for governmental activities at December 31, 2009 as described in Note 3.B to the basic financial statements. The total net assets of the City decreased \$383,748 or .02% from 2009. Net assets of governmental activities increased \$2,277,573 or 2.34% from 2009 and net assets of business-type activities decreased \$2,661,321 or 3.7% over 2009.
- General revenues accounted for \$22,170,942 or 73.57% of total governmental activities revenue. Program specific revenues accounted for \$7,966,215 or 26.43% of total governmental activities revenue.
- The City had \$27,859,584 in expenses related to governmental activities; \$7,966,215 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$19,893,369 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$22,170,942.
- The general fund had revenues and other financing sources of \$25,946,044 in 2010. This represents an increase of \$1,065,476 or 4.28% from 2009. The expenditures and other financing uses of the general fund, which totaled \$24,611,056 in 2010, decreased \$5,744,310 or 18.92% from 2009. The net increase in fund balance for the general fund was \$1,334,988 or 7.06%.
- The capital improvement fund had revenues and other financing sources of \$1,369,203 in 2010. The expenditures of the capital improvement fund totaled \$3,396,161 in 2010. The net decrease in fund balance for the capital improvement fund was \$2,026,958.
- Net assets for the business-type activities, which are made up of the Water, Sewer and Storm Water enterprise funds, decreased in 2010 by \$2,661,321. Charges for services revenue did not remain at a level sufficient to cover expenses resulting in a decrease to net assets of the Sewer fund. Net assets decreased by \$701,764 in the Water fund and increased by \$176,611 in the Storm Water fund.
- In the general fund, actual revenues were \$7,409,473 lower than the final budget revenues and actual expenditures were \$9,878,268 less than the final budget expenditures. These variances are the result of the City's conservative budgeting. Budgeted revenues decreased \$395,026 from the original budget to the final budget, primarily due to a decrease in income tax revenue. Budgeted expenditures increased \$456,294 from the original budget to the final budget, primarily due to an increase in budgeted capital outlay expenditures.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

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

**Reporting the City as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer and storm water operations are reported here.

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

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

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



**CITY OF GAHANNA  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the general fund and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation.

***Proprietary Funds***

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water management functions. The City's major enterprise funds are the water, sewer and storm water funds.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

**Government-Wide Financial Analysis**

The statement of net assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets at December 31, 2010 and December 31, 2009. The net assets of the City were restated at December 31, 2009 as described in Note 3.B to the basic financial statements.

	<b>Net Assets</b>				2010 Total	Restated 2009 Total
	Governmental Activities 2010	Restated Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009		
<b>Assets</b>						
Current and other assets	\$ 42,726,648	\$ 43,341,040	\$ 22,710,426	\$ 23,556,100	\$ 65,437,074	\$ 66,897,140
Capital assets, net	85,716,877	82,581,324	52,856,159	52,076,065	138,573,036	134,657,389
<b>Total assets</b>	<b>128,443,525</b>	<b>125,922,364</b>	<b>75,566,585</b>	<b>75,632,165</b>	<b>204,010,110</b>	<b>201,554,529</b>
<b>Liabilities</b>						
Current and other liabilities	5,009,823	4,412,923	2,878,787	163,597	7,888,610	4,576,520
Long-term liabilities	23,737,584	24,090,896	2,763,395	2,882,844	26,500,979	26,973,740
<b>Total liabilities</b>	<b>28,747,407</b>	<b>28,503,819</b>	<b>5,642,182</b>	<b>3,046,441</b>	<b>34,389,589</b>	<b>31,550,260</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	64,354,828	61,259,010	50,158,280	49,292,971	114,513,108	110,551,981
Restricted	13,723,679	15,470,230	-	-	13,723,679	15,470,230
Unrestricted	21,617,611	20,689,305	19,766,123	23,292,753	41,383,734	43,982,058
<b>Total net assets</b>	<b>\$ 99,696,118</b>	<b>\$ 97,418,545</b>	<b>\$ 69,924,403</b>	<b>\$ 72,585,724</b>	<b>\$ 169,620,521</b>	<b>\$ 170,004,269</b>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the City's assets exceeded liabilities by \$169,620,521. At year-end, net assets were \$99,696,118 and \$69,924,403 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 67.92% of total assets. Capital assets include land, right of ways, easements, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$64,354,828 and \$50,158,280 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$13,723,679 represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$21,617,611 may be used to meet the government's ongoing obligations to

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

citizens and creditors.

The table below shows the changes in net assets for 2010 and 2009. The net assets of the City were restated at December 31, 2009 as described in Note 3.B to the basic financial statements.

**Change in Net Assets**

	Governmental Activities 2010	Restated Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009	2010 Total	Restated 2009 Total
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 4,515,039	\$ 4,601,858	\$11,961,132	\$11,972,699	\$ 16,476,171	\$ 16,574,557
Operating grants and contributions	2,267,903	1,898,377	-	-	2,267,903	1,898,377
Capital grants and contributions	1,183,273	1,557,616	45,000	-	1,228,273	1,557,616
<b>Total program revenues</b>	<b>7,966,215</b>	<b>8,057,851</b>	<b>12,006,132</b>	<b>11,972,699</b>	<b>19,972,347</b>	<b>20,030,550</b>
General revenues:						
Income taxes	12,902,689	13,037,720	-	-	12,902,689	13,037,720
Property taxes	2,136,740	2,093,234	-	-	2,136,740	2,093,234
Revenue in lieu of taxes	2,661,218	1,342,299	-	-	2,661,218	1,342,299
Other local taxes	868,501	842,211	-	-	868,501	842,211
Unrestricted grants and entitlements	2,413,448	3,395,583	-	-	2,413,448	3,395,583
Investment earnings	736,662	1,098,874	63	2,383	736,725	1,101,257
Increase (decrease) in fair value of investments	(27,004)	346,999	-	-	(27,004)	346,999
Gain on sale of capital assets	43,977	95,995	-	-	43,977	95,995
Miscellaneous	434,711	339,393	172,321	218,983	607,032	558,376
<b>Total general revenues</b>	<b>22,170,942</b>	<b>22,592,308</b>	<b>172,384</b>	<b>221,366</b>	<b>22,343,326</b>	<b>22,813,674</b>
<b>Total revenues</b>	<b>30,137,157</b>	<b>30,650,159</b>	<b>12,178,516</b>	<b>12,194,065</b>	<b>42,315,673</b>	<b>42,844,224</b>
Expenses:						
General government	4,591,344	4,006,381	-	-	4,591,344	4,006,381
Security of persons and property	8,686,610	9,082,898	-	-	8,686,610	9,082,898
Public health and welfare	195,382	195,382	-	-	195,382	195,382
Transportation	3,571,469	4,198,845	-	-	3,571,469	4,198,845
Community environment	4,376,125	5,168,287	-	-	4,376,125	5,168,287
Leisure time activity	3,285,193	3,238,751	-	-	3,285,193	3,238,751
Utility services	2,253,385	2,295,336	-	-	2,253,385	2,295,336
Interest and fiscal charges	900,076	925,503	-	-	900,076	925,503
Water	-	-	6,385,501	5,080,513	6,385,501	5,080,513
Sewer	-	-	7,642,442	6,343,851	7,642,442	6,343,851
Storm water	-	-	811,894	611,248	811,894	611,248
<b>Total expenses</b>	<b>27,859,584</b>	<b>29,111,383</b>	<b>14,839,837</b>	<b>12,035,612</b>	<b>42,699,421</b>	<b>41,146,995</b>
Transfers	-	(44,726)	-	44,726	-	-
<b>Increase (decrease) in net assets</b>	<b>2,277,573</b>	<b>1,494,050</b>	<b>(2,661,321)</b>	<b>203,179</b>	<b>(383,748)</b>	<b>1,697,229</b>
<b>Net assets at beginning of year (restated)</b>	<b>97,418,545</b>	<b>95,924,495</b>	<b>72,585,724</b>	<b>72,382,545</b>	<b>170,004,269</b>	<b>168,307,040</b>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

**Governmental Activities**

Governmental activities net assets increased \$2,277,573 in 2010. The City experienced a \$135,031 decrease in income tax revenue from the prior year. The decrease in income tax revenue is the result of an overall decrease in the economic condition of the State of Ohio and experienced nationwide. This decrease was offset by an increase of \$1,318,919 in revenue in lieu of taxes from a property where the terms of the tax abatement were not met and the City pursued the owed amounts when the property was sold at a Sheriff's sale during the year.

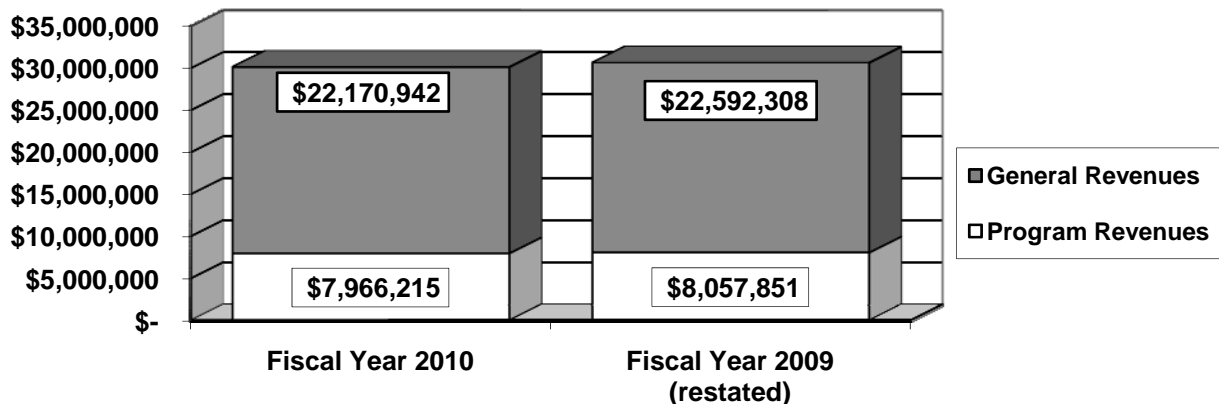
Security of persons and property, which primarily supports the operations of the police department, accounted for \$8,686,610 of the total expenses of the City. These expenses were partially funded by \$178,005 in direct charges to users of the services and \$91,252 in operating grants and contributions. General government expenses totaled \$4,591,344. General government expenses were partially funded by \$663,857 in direct charges to users of the services and \$124,674 in operating grants and contributions.

Transportation, which primarily includes street improvement programs, accounted for \$3,571,469 of the total expenses of the City. These expenses were partially funded by \$390,699 in direct charges to users of the services, \$1,831,442 in operating grants and contributions and \$1,045,728 in capital grants and contributions. Community environment, which primarily supports economic development programs, accounted for \$4,376,125 of the total expenses of the City. These expenses were partially funded by \$267,750 in direct charges to users of the services, and \$15,504 in operating grants and contributions.

The state and federal government contributed to the City a total of \$2,267,903 in operating grants and contributions and \$1,183,273 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions \$1,045,728 subsidized transportation programs. Of the total operating grants and contributions, \$1,831,442 subsidized transportation programs.

General revenues totaled \$22,170,942, and amounted to 73.57% of total governmental revenues. These revenues primarily consist of tax revenue (including income, property, revenue in lieu of, and other local taxes) of \$18,569,148. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government funds from the State of Ohio, making up \$2,413,448. The graph below compares the City's general revenues (which includes property taxes, income taxes and unrestricted grants and entitlements) and program revenues for fiscal year 2010 and 2009.

**Governmental Activities – General and Program Revenues**



**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

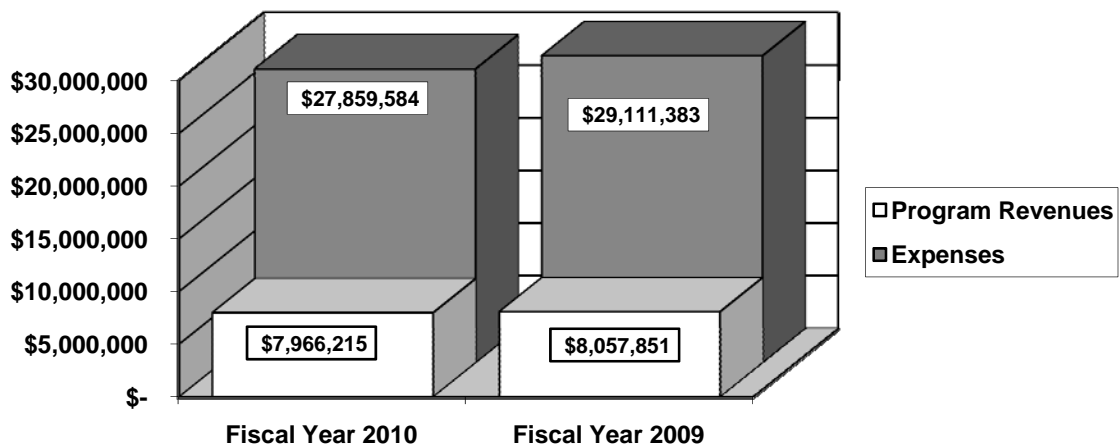
The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities**

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program Expenses:				
General government	\$ 4,591,344	\$ 3,802,813	\$ 4,006,381	\$ 3,438,063
Security of persons and property	8,686,610	8,417,353	9,082,898	8,407,607
Public health and welfare	195,382	195,382	195,382	195,382
Transportation	3,571,469	303,600	4,198,845	2,064,215
Community environment	4,376,125	3,955,326	5,168,287	3,389,322
Leisure time activity	3,285,193	2,026,146	3,238,751	2,205,130
Utility services	2,253,385	292,673	2,295,336	428,310
Interest and fiscal charges	900,076	900,076	925,503	925,503
<b>Total</b>	<b>\$ 27,859,584</b>	<b>\$ 19,893,369</b>	<b>\$ 29,111,383</b>	<b>\$ 21,053,532</b>

The dependence upon general revenues for governmental activities is apparent, with 71.41% of expenses supported through taxes and other general revenues.

**Governmental Activities – Program Revenues vs. Total Expenses**



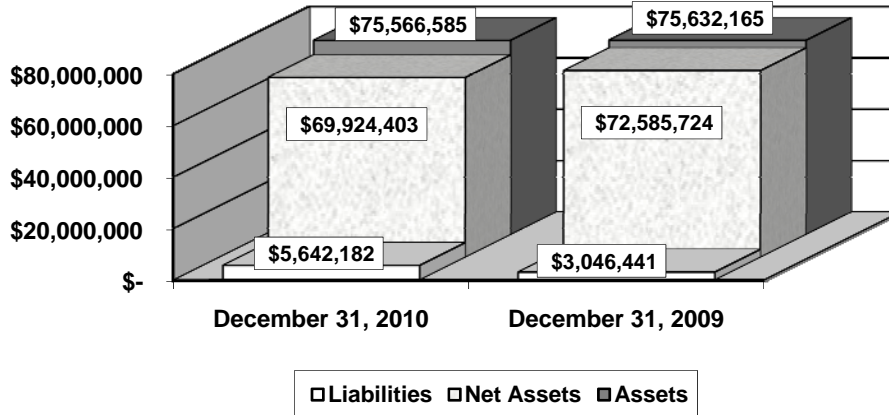
**CITY OF GAHANNA  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
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**Business-type Activities**

Business-type activities include the water, sewer and storm water enterprise funds. These programs had program revenues of \$12,006,132, general revenues of \$172,384 and expenses of \$14,839,837 for 2010. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business – Type Activities**



**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$32,527,504 which is \$673,739 more than last year's total of \$31,853,765. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2010 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> <u>12/31/10</u>	<u>Fund Balances</u> <u>12/31/09</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 20,255,174	\$ 18,920,186	\$ 1,334,988
Capital improvements	3,154,616	5,181,574	(2,026,958)
Other nonmajor governmental funds	<u>9,117,714</u>	<u>7,752,005</u>	<u>1,365,709</u>
Total	<u>\$ 32,527,504</u>	<u>\$ 31,853,765</u>	<u>\$ 673,739</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
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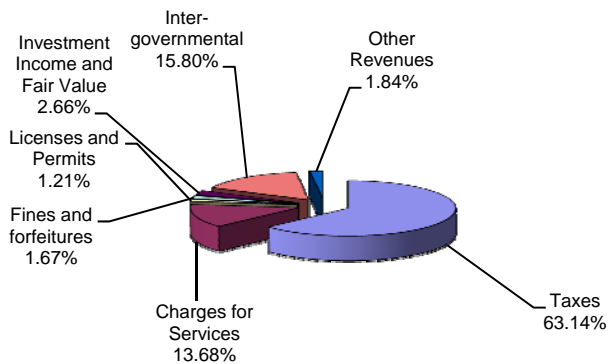
**General Fund**

The City's general fund balance increased \$1,334,988, primarily due to an increase in revenues coupled with a decrease in transfers out. The table that follows assists in illustrating the revenues of the general fund.

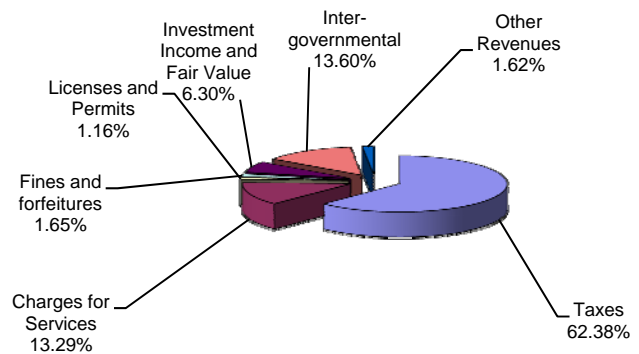
	<u>2010 Amount</u>	<u>2009 Amount</u>	<u>Percentage Change</u>
<b>Revenues</b>			
Taxes	\$ 16,354,913	\$ 15,420,807	6.06 %
Charges for services	3,542,692	3,288,629	7.73 %
Licenses, permits and fees	313,701	285,831	9.75 %
Fines and forfeitures	433,818	408,090	6.30 %
Intergovernmental	4,091,337	3,361,024	21.73 %
Investment income	715,372	1,210,249	(40.89) %
Increase (decrease) in fair value of investments	(27,004)	346,999	(107.78) %
Other	<u>477,258</u>	<u>399,711</u>	19.40 %
<b>Total</b>	<u><b>\$ 25,902,087</b></u>	<u><b>\$ 24,721,340</b></u>	4.78 %

Tax revenue represents 63.14% of all general fund revenue. The decrease in investment income is due to lower interest rates on the City's investment portfolio. The fair value of investments decreased substantially in 2010 resulting from fluctuations in value of the investment securities. The City intends to hold investments to maturity. Intergovernmental revenues increased 21.73% due to the City receiving more state and federal grant funding in 2010 versus 2009. Other revenue, including rental income and contributions and donations, increased as the City experienced more of these revenue sources in 2010 versus 2009.

**Revenues – Fiscal Year 2010**



**Revenues – Fiscal Year 2009**



**CITY OF GAHANNA  
FRANKLIN COUNTY**

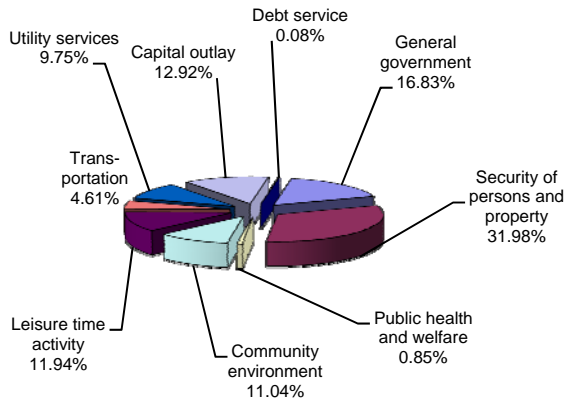
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

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

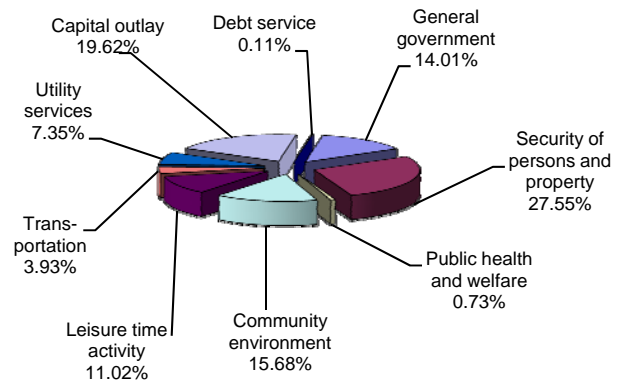
<b>Expenditures</b>	<b>2010 Amount</b>	<b>2009 Amount</b>	<b>Percentage Change</b>
General government	\$ 3,892,201	\$ 3,758,322	3.56 %
Security of persons and property	7,393,910	7,389,607	0.06 %
Public health and welfare	195,382	195,382	- %
Transportation	1,066,801	1,054,665	1.15 %
Community environment	2,553,705	4,206,970	(39.30) %
Leisure time activity	2,760,515	2,957,090	(6.65) %
Utility services	2,253,385	1,970,557	14.35 %
Capital outlay	2,987,082	5,264,500	(43.26) %
Debt service	18,667	29,181	(36.03) %
<b>Total</b>	<b>\$ 23,121,648</b>	<b>\$ 26,826,274</b>	<b>(13.81) %</b>

Utility services increased due to increasing utility costs. Community environment expenditures decreased \$1,653,265 due to less community development projects during the year. Capital outlay also decreased as the City completed a significant amount of construction projects that had been outstanding as of the prior fiscal year. Debt service payments decreased due to the City making the last payment on a lease obligation. The increase or decrease in all other expenditures was primarily due to normal and customary wage and benefit increases as well as ordinary maintenance and repairs.

**Expenditures - Fiscal Year 2010**



**Expenditures - Fiscal Year 2009**



**Capital Improvement Fund**

The capital improvement fund had revenues and other financing sources of \$1,369,203 in 2010. The expenditures of the capital improvement fund totaled \$3,396,161 in 2010. The net decrease in fund balance for the capital improvement fund was \$2,026,958. The capital improvement fund received \$558,148 in OPWC loan proceeds in 2010.



**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

***Budgeting Highlights – General Fund***

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

In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$456,294 from \$39,345,259 to \$39,801,553. Actual revenues of \$24,564,106 were less than final budgeted revenues by \$7,409,473. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$9,878,268 lower than the final budgeted amounts.

***Proprietary Funds***

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government wide statements are those between business-type activities and governmental activities (reported as internal balances) whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2010, the City had \$138,573,036 (net of accumulated depreciation) invested in land, right of ways, easements, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress (CIP). Of this total, \$85,716,877 was reported in governmental activities and \$52,856,159 was reported in business-type activities.

The following table shows fiscal 2010 balances compared to 2009:

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

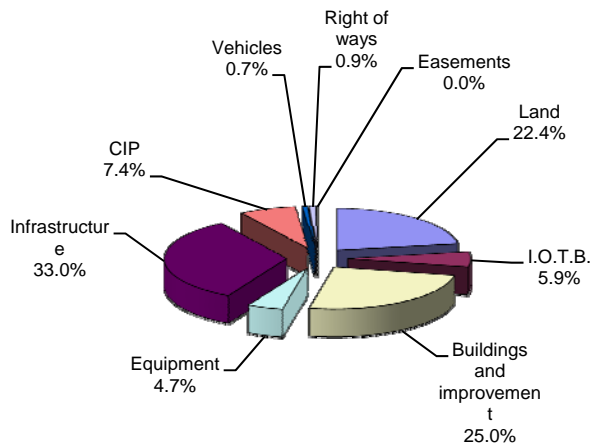
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 19,225,271	\$ 18,113,001	\$ 299,981	\$ 288,706	\$ 19,525,252	\$ 18,401,707
Right of ways	760,503	-	22,886	-	783,389	-
Easements	23,364	-	9,350	-	32,714	-
Buildings	21,444,912	21,942,884	546,994	575,455	21,991,906	22,518,339
I.O.T.B.	4,968,779	5,320,258	592,507	624,675	5,561,286	5,944,933
Machinery and equipment	4,015,793	2,678,519	1,637,334	427,276	5,653,127	3,105,795
Vehicles	612,166	823,416	354,422	439,682	966,588	1,263,098
Storm sewer lines	-	-	9,581,076	9,786,964	9,581,076	9,786,964
Water lines	-	-	23,215,424	23,346,525	23,215,424	23,346,525
Sewer lines	-	-	15,127,256	15,002,358	15,127,256	15,002,358
Infrastructure	28,304,178	26,405,560	-	-	28,304,178	26,405,560
Construction in progress	6,361,911	7,297,686	1,468,929	1,584,424	7,830,840	8,882,110
<b>Totals</b>	<b>\$ 85,716,877</b>	<b>\$ 82,581,324</b>	<b>\$ 52,856,159</b>	<b>\$ 52,076,065</b>	<b>\$ 138,573,036</b>	<b>\$ 134,657,389</b>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

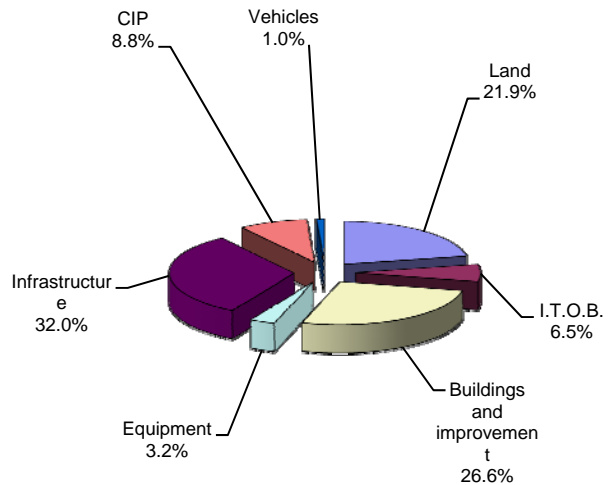
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2010 and 2009.

**Capital Assets - Governmental Activities 2010**



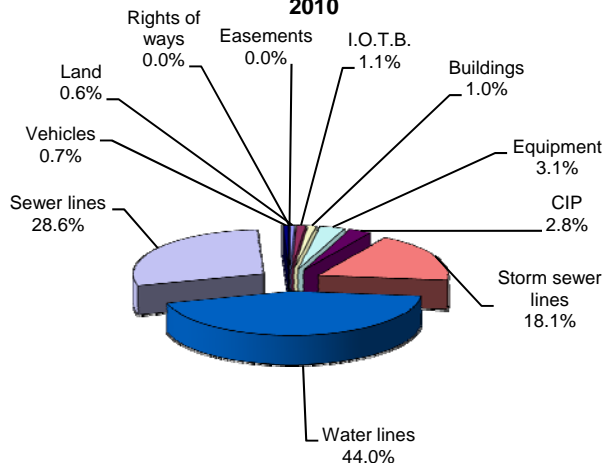
**Capital Assets - Governmental Activities 2009**



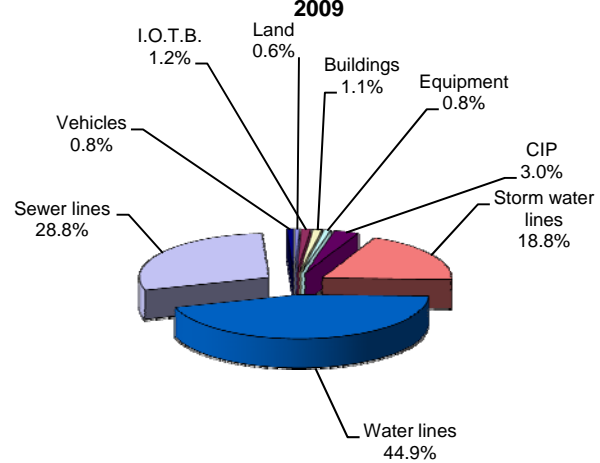
The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, street lighting and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 33.0% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2010 and 2009.

**Capital Assets - Business-Type Activities  
2010**



**Capital Assets - Business-Type Activities  
2009**



The City's largest business-type capital asset category is infrastructure that primarily includes water, sewer and storm sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 90.7% of the City's total business-type capital assets.

See Note 9 for detail on the City's capital assets.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)

**Debt Administration**

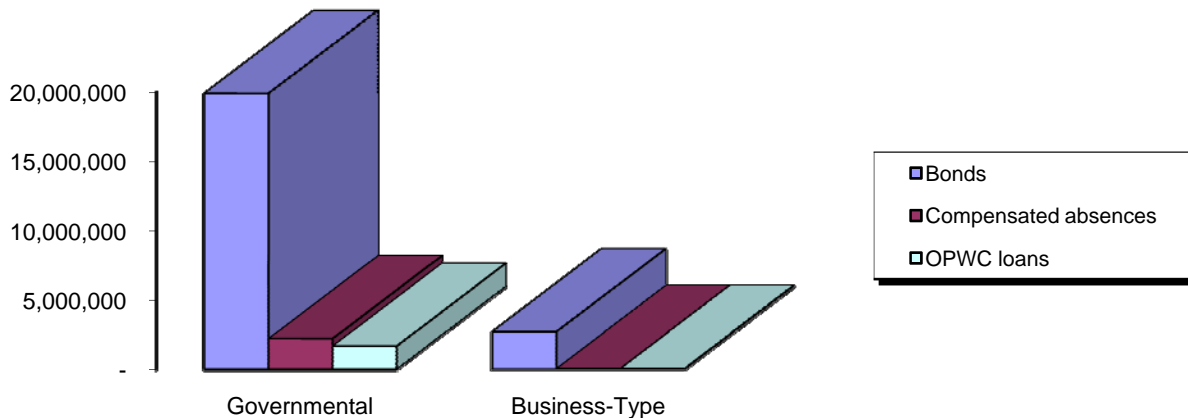
The City had the following long-term obligations outstanding at December 31, 2010 and 2009:

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Compensated absences	\$ 2,199,516	\$ 2,313,432
General obligation bonds	19,879,610	20,563,110
OPWC loans	1,658,458	1,196,024
Capital lease	<u>-</u>	<u>18,330</u>
Total long-term obligations	<u>\$ 23,737,584</u>	<u>\$ 24,090,896</u>

	Business-type Activities	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 2,690,425	\$ 2,799,162
OPWC loans	35,798	46,926
Compensated absences	<u>37,172</u>	<u>36,756</u>
Total long-term obligations	<u>\$ 2,763,395</u>	<u>\$ 2,882,844</u>

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



See Note 16 for detail on the City's long-term obligations.

**Economic Conditions and Outlook**

Like most other municipal entities, the City of Gahanna's financial condition has been impacted by the overall economic decline. The City's main sources of revenue – the Income Tax, Local Government Fund, and Investment Earnings - are all highly influenced by economic conditions and have been negatively impacted by the downturn in the economy.

The performance of the Local Government Fund improved from 2009 to 2010 and was expected to slightly increase in 2011 based on growth in general tax revenues at the State level. However, proposed changes to local government funding, which call for a 25% reduction beginning in the second half of 2011 and a 50% reduction beginning the second half of 2012, will have a significant impact on this source of revenue for the City and could ultimately, when fully implemented, result in a \$650,000 reduction in General Fund revenue.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2010  
(UNAUDITED)**

2010 was the first year that the City utilized the Regional Income Tax Agency (RITA) for its' income tax collection. Our income tax revenues, after a number of years of decline, appear to have leveled off, albeit at a much lower amount than in previous years. We believe the partnership with RITA has assisted us in our residential and business compliance efforts and helped in minimizing the further decline of our tax base. While a minor increase in income tax revenue was anticipated for 2011 when the annual appropriations were passed, we are encouraged by a number of business that have committed to move into the community during 2011, which will further help our income tax revenue.

The Administration and Council are working together to contain costs in all areas while exploring options for increased revenue. Fortunately, the conservative financial management over the years has provided reserve balances that have assisted the City through this downturn. However, it is recognized that continual reliance on reserve balances to stabilize future budgets is not appropriate.

**Contacting the City's Financial Management**

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

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**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2010

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 30,771,826	\$ 19,748,968	\$ 50,520,794
Cash with fiscal agents . . . . .	144,768	-	144,768
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	3,564,979	-	3,564,979
Property taxes . . . . .	2,101,265	-	2,101,265
Other local taxes . . . . .	159,131	-	159,131
Revenue in lieu of taxes . . . . .	843,484	-	843,484
Accounts . . . . .	584,741	2,919,665	3,504,406
Accrued interest . . . . .	143,009	-	143,009
Capital leases . . . . .	94,178	-	94,178
Due from other governments . . . . .	3,565,175	-	3,565,175
Prepayments . . . . .	62,121	3,186	65,307
Materials and supplies inventory . . . . .	257,810	14,746	272,556
Deferred bond issuance costs . . . . .	173,397	23,861	197,258
Capital assets:			
Land and construction-in-progress . . . . .	26,371,049	1,801,146	28,172,195
Depreciable capital assets, net . . . . .	59,345,828	51,055,013	110,400,841
Total capital assets . . . . .	<u>85,716,877</u>	<u>52,856,159</u>	<u>138,573,036</u>
<b>Total assets . . . . .</b>	<b><u>128,182,761</u></b>	<b><u>75,566,585</u></b>	<b><u>203,749,346</u></b>
<b>Liabilities:</b>			
Accounts payable . . . . .	219,999	2,106,342	2,326,341
Contracts payable . . . . .	300,309	532,065	832,374
Accrued wages and benefits . . . . .	188,706	13,397	202,103
Due to other governments . . . . .	886,628	199,310	1,085,938
Compensatory time payable . . . . .	157,947	16,798	174,745
Accrued interest payable . . . . .	74,386	10,875	85,261
Unearned revenue . . . . .	2,921,084	-	2,921,084
Long-term liabilities:			
Due within one year . . . . .	1,562,807	156,007	1,718,814
Due in more than one year . . . . .	22,174,777	2,607,388	24,782,165
<b>Total liabilities . . . . .</b>	<b><u>28,486,643</u></b>	<b><u>5,642,182</u></b>	<b><u>34,128,825</u></b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	64,354,828	50,158,280	114,513,108
Restricted for:			
Capital projects . . . . .	4,370,737	-	4,370,737
Debt service . . . . .	1,139,903	-	1,139,903
Community environment . . . . .	4,194,718	-	4,194,718
Security of persons and property . . . . .	1,128,732	-	1,128,732
Transportation . . . . .	1,141,039	-	1,141,039
Leisure time activities . . . . .	10,796	-	10,796
Other purposes . . . . .	1,737,754	-	1,737,754
Unrestricted . . . . .	<u>21,617,611</u>	<u>19,766,123</u>	<u>41,383,734</u>
<b>Total net assets . . . . .</b>	<b><u>\$ 99,696,118</u></b>	<b><u>\$ 69,924,403</u></b>	<b><u>\$ 169,620,521</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government . . . . .	\$ 4,591,344	\$ 663,857	\$ 124,674	\$ -
Security of persons and property . . . . .	8,686,610	178,005	91,252	-
Public health and welfare . . . . .	195,382	-	-	-
Transportation . . . . .	3,571,469	390,699	1,831,442	1,045,728
Community environment . . . . .	4,376,125	267,750	15,504	137,545
Leisure time activity . . . . .	3,285,193	1,054,016	205,031	-
Utility services . . . . .	2,253,385	1,960,712	-	-
Interest and fiscal charges . . . . .	900,076	-	-	-
<b>Total governmental activities . . . . .</b>	<b>27,859,584</b>	<b>4,515,039</b>	<b>2,267,903</b>	<b>1,183,273</b>
<b>Business-type activities:</b>				
Water . . . . .	6,385,501	5,587,024	-	-
Sewer . . . . .	7,642,442	5,439,343	-	-
Storm water . . . . .	811,894	934,765	-	45,000
<b>Total business-type activities . . . . .</b>	<b>14,839,837</b>	<b>11,961,132</b>	<b>-</b>	<b>45,000</b>
<b>Total primary government . . . . .</b>	<b>\$ 42,699,421</b>	<b>\$ 16,476,171</b>	<b>\$ 2,267,903</b>	<b>\$ 1,228,273</b>

**General Revenues:**

Income taxes levied for:

    General purposes . . . . .

Property taxes levied for:

    General purposes . . . . .

    Debt service . . . . .

    Police . . . . .

Revenue in lieu of taxes . . . . .

Other local taxes . . . . .

Grants and entitlements not restricted to specific programs . . . . .

Investment earnings . . . . .

Decrease in fair market value of investments . . . . .

Gain on sale of capital assets . . . . .

Miscellaneous . . . . .

Total general revenues . . . . .

Change in net assets . . . . .

**Net assets at beginning of year (restated) . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net Revenue (Expense) and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (3,802,813)	\$ -	\$ (3,802,813)
(8,417,353)	-	(8,417,353)
(195,382)	-	(195,382)
(303,600)	-	(303,600)
(3,955,326)	-	(3,955,326)
(2,026,146)	-	(2,026,146)
(292,673)	-	(292,673)
(900,076)	-	(900,076)
<u>(19,893,369)</u>	<u>-</u>	<u>(19,893,369)</u>
-	(798,477)	(798,477)
-	(2,203,099)	(2,203,099)
-	167,871	167,871
<u>-</u>	<u>(2,833,705)</u>	<u>(2,833,705)</u>
<u>(19,893,369)</u>	<u>(2,833,705)</u>	<u>(22,727,074)</u>
12,902,689	-	12,902,689
1,612,081	-	1,612,081
258,003	-	258,003
266,656	-	266,656
2,661,218	-	2,661,218
868,501	-	868,501
2,413,448	-	2,413,448
736,662	63	736,725
(27,004)	-	(27,004)
43,977	-	43,977
<u>434,711</u>	<u>172,321</u>	<u>607,032</u>
<u>22,170,942</u>	<u>172,384</u>	<u>22,343,326</u>
2,277,573	(2,661,321)	(383,748)
<u>97,418,545</u>	<u>72,585,724</u>	<u>170,004,269</u>
<u>\$ 99,696,118</u>	<u>\$ 69,924,403</u>	<u>\$ 169,620,521</u>



**CITY OF GAHANNA  
FRANKLIN COUNTY**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2010

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments. . . . .	\$ 18,680,790	\$ 3,154,886	\$ 8,936,150	\$ 30,771,826
Cash with fiscal agents . . . . .	-	-	144,768	144,768
Receivables (net of allowance for uncollectibles):				
Income taxes. . . . .	3,564,979	-	-	3,564,979
Property taxes. . . . .	1,583,609	-	517,656	2,101,265
Other local taxes. . . . .	159,131	-	-	159,131
Revenue in lieu of taxes . . . . .	-	-	843,484	843,484
Accounts. . . . .	583,416	-	1,325	584,741
Accrued interest. . . . .	143,009	-	-	143,009
Capital leases . . . . .	-	-	94,178	94,178
Due from other governments. . . . .	1,809,400	994,753	761,022	3,565,175
Prepayments. . . . .	59,094	-	3,027	62,121
Materials and supplies inventory. . . . .	257,810	-	-	257,810
<b>Total assets . . . . .</b>	<b><u>\$ 26,841,238</u></b>	<b><u>\$ 4,149,639</u></b>	<b><u>\$ 11,301,610</u></b>	<b><u>\$ 42,292,487</u></b>
<b>Liabilities:</b>				
Accounts payable. . . . .	\$ 198,316	\$ -	\$ 21,683	\$ 219,999
Contracts payable. . . . .	272,454	270	27,585	300,309
Accrued wages and benefits payable . . . . .	180,780	-	7,926	188,706
Due to other governments . . . . .	847,128	-	39,500	886,628
Deferred revenue. . . . .	3,592,588	994,753	660,916	5,248,257
Unearned revenue. . . . .	1,494,798	-	1,426,286	2,921,084
<b>Total liabilities . . . . .</b>	<b><u>6,586,064</u></b>	<b><u>995,023</u></b>	<b><u>2,183,896</u></b>	<b><u>9,764,983</u></b>
<b>Fund balances:</b>				
Reserved for encumbrances . . . . .	5,405,773	949,840	698,609	7,054,222
Reserved for debt service. . . . .	-	-	1,104,011	1,104,011
Unreserved:				
Designated for sick/vacation leave . . . . .	1,605,229	-	-	1,605,229
Designated for budget reserve . . . . .	5,604,786	-	-	5,604,786
Undesignated, reported in:				
General fund . . . . .	7,639,386	-	-	7,639,386
Special revenue funds. . . . .	-	-	7,093,726	7,093,726
Capital projects funds. . . . .	-	2,204,776	221,368	2,426,144
<b>Total fund balances. . . . .</b>	<b><u>20,255,174</u></b>	<b><u>3,154,616</u></b>	<b><u>9,117,714</u></b>	<b><u>32,527,504</u></b>
<b>Total liabilities and fund balances . . . . .</b>	<b><u>\$ 26,841,238</u></b>	<b><u>\$ 4,149,639</u></b>	<b><u>\$ 11,301,610</u></b>	<b><u>\$ 42,292,487</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2010

<b>Total governmental fund balances</b>		\$	32,527,504
 <i>Amounts reported for governmental activities on 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.			85,716,877
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income tax receivable	\$	1,733,050	
Property taxes receivable		117,843	
Other local taxes receivable		89,079	
Intergovernmental receivable		3,117,913	
Accrued interest receivable		107,396	
Accounts receivable		82,976	
Total			5,248,257
Unamortized balances of bond related transactions are not recorded in the funds.			
Unamortized premiums on bonds issued		(443,404)	
Unamortized deferred bond issuance costs		173,397	
Total			(270,007)
On the statement of net assets interest is accrued on outstanding bonds, whereas in governmental funds, interest is accrued when due.			
The amount of accrued interest payable at year-end was:			(74,386)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:			
General obligation bonds		(19,436,206)	
OPWC loan		(1,658,458)	
Compensated absences		(2,199,516)	
Compensatory time payable		(157,947)	
Total			(23,452,127)
<b>Net assets of governmental activities</b>		\$	99,696,118

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Income taxes . . . . .	\$ 13,838,380	\$ -	\$ -	\$ 13,838,380
Property taxes . . . . .	1,615,358	-	524,877	2,140,235
Other local taxes . . . . .	901,175	-	-	901,175
Revenue in lieu of taxes. . . . .	-	-	2,661,218	2,661,218
Charges for services . . . . .	3,542,692	-	-	3,542,692
Licenses, permits and fees . . . . .	313,701	-	30,000	343,701
Fines and forfeitures . . . . .	433,818	-	102,067	535,885
Intergovernmental . . . . .	4,091,337	811,055	1,879,912	6,782,304
Investment income . . . . .	715,372	-	182	715,554
Rental income . . . . .	42,798	-	49,964	92,762
Contributions and donations . . . . .	2,560	-	-	2,560
Decrease in fair value of investments . . . . .	(27,004)	-	-	(27,004)
Other . . . . .	431,900	-	1,217	433,117
Total revenues. . . . .	<u>25,902,087</u>	<u>811,055</u>	<u>5,249,437</u>	<u>31,962,579</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	3,892,201	-	43,186	3,935,387
Security of persons and property. . . . .	7,393,910	-	1,134,600	8,528,510
Public health and welfare . . . . .	195,382	-	-	195,382
Transportation . . . . .	1,066,801	-	1,147,501	2,214,302
Community environment . . . . .	2,553,705	-	390,024	2,943,729
Leisure time activity . . . . .	2,760,515	-	-	2,760,515
Utility services . . . . .	2,253,385	-	-	2,253,385
Capital outlay. . . . .	2,987,082	3,396,161	986,399	7,369,642
Debt service:				
Principal retirement . . . . .	18,330	-	755,106	773,436
Interest and fiscal charges . . . . .	337	-	916,340	916,677
Total expenditures . . . . .	<u>23,121,648</u>	<u>3,396,161</u>	<u>5,373,156</u>	<u>31,890,965</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>2,780,439</u>	<u>(2,585,106)</u>	<u>(123,719)</u>	<u>71,614</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	-	2,012,348	2,012,348
Transfers out . . . . .	(1,489,408)	-	(522,940)	(2,012,348)
Issuance of OPWC loans. . . . .	-	558,148	-	558,148
Sale of capital assets. . . . .	43,957	-	20	43,977
Total other financing sources (uses) . . . . .	<u>(1,445,451)</u>	<u>558,148</u>	<u>1,489,428</u>	<u>602,125</u>
Net change in fund balances . . . . .	1,334,988	(2,026,958)	1,365,709	673,739
<b>Fund balances at beginning of year . . . . .</b>	<u>18,920,186</u>	<u>5,181,574</u>	<u>7,752,005</u>	<u>31,853,765</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 20,255,174</u>	<u>\$ 3,154,616</u>	<u>\$ 9,117,714</u>	<u>\$ 32,527,504</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

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, 2010

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>673,739</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Government funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.		
Capital asset additions	\$ 6,695,698	
Current year depreciation	<u>(3,560,145)</u>	
Total		3,135,553
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income tax	(935,691)	
Property taxes	(3,495)	
Other local taxes	(32,674)	
Intergovernmental	(921,640)	
Interest income	21,290	
Other	<u>2,811</u>	
Total		(1,869,399)
Proceeds of OPWC loans are reported as an other financing source in the governmental funds; however, in the statement of activities they are not reported as revenues as they increase liabilities on the statement of net assets.		
		(558,148)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. The following principal payments were made during the year:		
Bonds	659,392	
OPWC loan	95,714	
Capital lease	<u>18,330</u>	
Total		773,436
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items contributed to less interest being reported on the statement of activities:		
Decrease in accrued interest payable	2,007	
Amortization of bond premiums	24,108	
Amortization of bond issue costs	<u>(9,514)</u>	
Total		16,601
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consisted of:		
Decrease in compensated absences payable	113,916	
Increase in compensatory time payable	<u>(8,125)</u>	
Total		<u>105,791</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>2,277,573</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 16,685,044	\$ 16,481,420	\$ 12,662,059	\$ (3,819,361)
Property taxes . . . . .	2,128,589	2,102,612	1,615,358	(487,254)
Other local taxes . . . . .	1,138,851	1,124,953	864,259	(260,694)
Charges for services . . . . .	4,670,923	4,613,919	3,544,702	(1,069,217)
Licenses, permits and fees . . . . .	413,370	408,325	313,701	(94,624)
Fines and forfeitures . . . . .	565,965	559,058	429,503	(129,555)
Intergovernmental . . . . .	5,098,389	5,036,168	3,869,100	(1,167,068)
Investment income . . . . .	995,483	983,334	755,459	(227,875)
Rental income . . . . .	56,396	55,708	42,798	(12,910)
Contributions and donations . . . . .	3,373	3,332	2,560	(772)
Other . . . . .	554,299	547,534	420,650	(126,884)
<b>Total revenues . . . . .</b>	<b>32,310,682</b>	<b>31,916,363</b>	<b>24,520,149</b>	<b>(7,396,214)</b>
<b>Expenditures:</b>				
Current:				
General government . . . . .	4,834,463	4,915,548	4,430,789	484,759
Security of persons and property . . . . .	8,142,036	8,157,036	7,403,414	753,622
Public health and welfare . . . . .	202,482	202,482	195,382	7,100
Transportation . . . . .	1,910,442	1,897,174	1,225,987	671,187
Community environment . . . . .	4,310,423	4,347,226	4,009,827	337,399
Leisure time activity . . . . .	3,516,282	3,417,346	2,927,344	490,002
Utility services . . . . .	2,377,685	2,423,869	2,325,948	97,921
Capital outlay . . . . .	12,340,949	12,730,375	5,915,186	6,815,189
<b>Total expenditures . . . . .</b>	<b>37,634,762</b>	<b>38,091,056</b>	<b>28,433,877</b>	<b>9,657,179</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(5,324,080)	(6,174,693)	(3,913,728)	2,260,965
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	57,923	57,216	43,957	(13,259)
Transfers out . . . . .	(1,710,497)	(1,710,497)	(1,489,408)	221,089
<b>Total other financing sources (uses) . . . . .</b>	<b>(1,652,574)</b>	<b>(1,653,281)</b>	<b>(1,445,451)</b>	<b>207,830</b>
Net change in fund balances . . . . .	(6,976,654)	(7,827,974)	(5,359,179)	2,468,795
<b>Fund balances at beginning of year . . . . .</b>	<b>11,809,704</b>	<b>11,809,704</b>	<b>11,809,704</b>	<b>-</b>
<b>Prior year encumbrances appropriated . . . . .</b>	<b>6,626,074</b>	<b>6,626,074</b>	<b>6,626,074</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 11,459,124</b>	<b>\$ 10,607,804</b>	<b>\$ 13,076,599</b>	<b>\$ 2,468,795</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2010

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Storm Water</b>	<b>Total</b>
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and investments . . . . .	\$ 4,186,841	\$ 13,575,529	\$ 1,986,598	\$ 19,748,968
Receivables (net of allowance for uncollectibles):				
Accounts . . . . .	1,338,951	1,353,542	227,172	2,919,665
Prepayments . . . . .	1,626	1,279	281	3,186
Materials and supplies inventory . . . . .	7,373	7,373	-	14,746
Total current assets . . . . .	<u>5,534,791</u>	<u>14,937,723</u>	<u>2,214,051</u>	<u>22,686,565</u>
Noncurrent assets:				
Deferred bond issuance costs . . . . .	3,094	3,094	17,673	23,861
Capital assets:				
Land and construction-in-progress . . . . .	736,880	772,901	291,365	1,801,146
Depreciable capital assets, net . . . . .	24,953,046	15,881,682	10,220,285	51,055,013
Total capital assets . . . . .	<u>25,689,926</u>	<u>16,654,583</u>	<u>10,511,650</u>	<u>52,856,159</u>
Total noncurrent assets . . . . .	<u>25,693,020</u>	<u>16,657,677</u>	<u>10,529,323</u>	<u>52,880,020</u>
Total assets . . . . .	<u>31,227,811</u>	<u>31,595,400</u>	<u>12,743,374</u>	<u>75,566,585</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable . . . . .	920,598	1,184,508	1,236	2,106,342
Contracts payable . . . . .	52,018	478,773	1,274	532,065
Accrued wages and benefits . . . . .	5,324	5,327	2,746	13,397
Due to other governments . . . . .	177,539	14,529	7,242	199,310
Compensatory time payable . . . . .	7,070	7,070	2,658	16,798
Accrued interest payable . . . . .	1,210	1,787	7,878	10,875
Current portion of compensated absences . . . . .	14,564	14,564	8,044	37,172
Current portion of general obligation bonds payable . . . . .	12,802	12,802	81,710	107,314
Current portion of OPWC loans payable . . . . .	-	11,521	-	11,521
Total current liabilities . . . . .	<u>1,191,125</u>	<u>1,730,881</u>	<u>112,788</u>	<u>3,034,794</u>
Long-term liabilities:				
General obligation bonds payable . . . . .	303,685	303,685	1,975,741	2,583,111
OPWC loans payable . . . . .	-	24,277	-	24,277
Total long-term liabilities . . . . .	<u>303,685</u>	<u>327,962</u>	<u>1,975,741</u>	<u>2,607,388</u>
Total liabilities . . . . .	<u>1,494,810</u>	<u>2,058,843</u>	<u>2,088,529</u>	<u>5,642,182</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt . . . . .	25,373,439	16,302,298	8,482,543	50,158,280
Unrestricted . . . . .	<u>4,359,562</u>	<u>13,234,259</u>	<u>2,172,302</u>	<u>19,766,123</u>
Total net assets . . . . .	<u>\$ 29,733,001</u>	<u>\$ 29,536,557</u>	<u>\$ 10,654,845</u>	<u>\$ 69,924,403</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

**Business-type Activities - Enterprise Funds**

	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ 5,587,024	\$ 5,439,343	\$ 934,765	\$ 11,961,132
Other . . . . .	96,707	66,925	8,689	172,321
Total operating revenues . . . . .	<u>5,683,731</u>	<u>5,506,268</u>	<u>943,454</u>	<u>12,133,453</u>
<b>Operating expenses:</b>				
Personal services . . . . .	517,833	869,219	270,586	1,657,638
Contractual services . . . . .	4,851,737	6,177,203	96,387	11,125,327
Materials and supplies . . . . .	143,105	22,590	1,623	167,318
Depreciation . . . . .	722,052	479,458	252,970	1,454,480
Other . . . . .	135,812	77,708	93,966	307,486
Total operating expenses . . . . .	<u>6,370,539</u>	<u>7,626,178</u>	<u>715,532</u>	<u>14,712,249</u>
Operating income (loss) . . . . .	<u>(686,808)</u>	<u>(2,119,910)</u>	<u>227,922</u>	<u>(2,578,796)</u>
<b>Nonoperating revenues (expenses):</b>				
Interest and fiscal charges . . . . .	(14,962)	(16,264)	(96,362)	(127,588)
Investment earnings . . . . .	6	6	51	63
Total nonoperating revenues (expenses) . . . . .	<u>(14,956)</u>	<u>(16,258)</u>	<u>(96,311)</u>	<u>(127,525)</u>
Net income (loss) before capital contributions . . . . .	(701,764)	(2,136,168)	131,611	(2,706,321)
Capital contributions . . . . .	-	-	45,000	45,000
Change in net assets . . . . .	(701,764)	(2,136,168)	176,611	(2,661,321)
<b>Net assets at beginning of year . . . . .</b>	<u>30,434,765</u>	<u>31,672,725</u>	<u>10,478,234</u>	<u>72,585,724</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 29,733,001</u>	<u>\$ 29,536,557</u>	<u>\$ 10,654,845</u>	<u>\$ 69,924,403</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Storm Water</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>				
Cash received from charges for services . . . . .	\$ 5,336,274	\$ 5,875,853	\$ 950,832	\$ 12,162,959
Cash received from other operations . . . . .	96,707	66,925	8,689	172,321
Cash payments for personal services . . . . .	(518,586)	(518,567)	(270,877)	(1,308,030)
Cash payments for contractual services . . . . .	(3,897,351)	(5,356,537)	(96,685)	(9,350,573)
Cash payments for materials and supplies. . . . .	(138,721)	(16,947)	(1,661)	(157,329)
Cash payments for other expenses . . . . .	(132,521)	(77,721)	(95,421)	(305,663)
Net cash provided by/used in operating activities . . . . .	<u>745,802</u>	<u>(26,994)</u>	<u>494,877</u>	<u>1,213,685</u>
<b>Cash flows from capital and related financing activities:</b>				
Cash payments for the acquisition of capital assets. . . . .	(1,318,687)	(268,399)	(57,789)	(1,644,875)
Cash received from capital contributions . . . . .	-	-	45,000	45,000
Principal payments on OPWC loan . . . . .	-	(11,128)	-	(11,128)
Interest payments on OPWC loan . . . . .	-	(1,546)	-	(1,546)
Principal payments on bonds. . . . .	(11,949)	(11,949)	(81,710)	(105,608)
Interest payments on bonds. . . . .	(15,222)	(15,222)	(97,891)	(128,335)
Net cash used in capital and related financing activities. . . . .	<u>(1,345,858)</u>	<u>(308,244)</u>	<u>(192,390)</u>	<u>(1,846,492)</u>
<b>Cash flows from investing activities:</b>				
Cash received from interest earned. . . . .	6	6	51	63
Net cash provided by investing activities . . . . .	<u>6</u>	<u>6</u>	<u>51</u>	<u>63</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(600,050)	(335,232)	302,538	(632,744)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	4,786,891	13,910,761	1,684,060	20,381,712
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 4,186,841</u>	<u>\$ 13,575,529</u>	<u>\$ 1,986,598</u>	<u>\$ 19,748,968</u>

- - (Continued)



**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Storm Water</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss) . . . . .	\$ (686,808)	\$ (2,119,910)	\$ 227,922	\$ (2,578,796)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation . . . . .	722,052	479,458	252,970	1,454,480
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable . . . . .	(250,750)	436,510	16,067	201,827
Decrease in materials and supplies inventory . . . . .	3,777	3,776	-	7,553
(Increase) decrease in prepayments . . . . .	826	1,560	(281)	2,105
Increase (decrease) in accounts payable . . . . .	909,790	1,182,449	(3,445)	2,088,794
Increase (decrease) in contracts payable . . . . .	47,648	(4,763)	651	43,536
Decrease in accrued wages and benefits . . . . .	(474)	(474)	(291)	(1,239)
Decrease in due to other governments . . . . .	(2,504)	(7,845)	(542)	(10,891)
Increase in compensated absences payable . . . . .	41	41	334	416
Increase in compensatory time payable . . . . .	2,204	2,204	1,492	5,900
Net cash provided by operating activities . . . . .	<u>\$ 745,802</u>	<u>\$ (26,994)</u>	<u>\$ 494,877</u>	<u>\$ 1,213,685</u>

**Non-cash Transactions**

At December 31, 2010 and 2009, the Water fund purchased \$167,294 and \$43,680, respectively, in capital assets on account.

At December 31, 2010 and 2009, the Sewer fund purchased \$442,270 and \$4,999, respectively, in capital assets on account.

At December 31, 2009, the Storm Water fund purchased \$865, respectively, in capital assets on account.

During 2010, the Storm Water fund received \$45,000 in OWDA loan proceeds and loan forgiveness payments through American Recovery and Reinvestment Act (ARRA) funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
DECEMBER 31, 2010

		<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$	442,774
Cash in segregated accounts . . . . .		21,835
 Total assets . . . . .	 \$	 464,609
<b>Liabilities:</b>		
Due to other governments. . . . .	\$	71,765
Undistributed assets. . . . .		21,835
Deposits held and due to others. . . . .		371,009
 Total liabilities. . . . .	 \$	 464,609

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**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 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; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the City and the organization is such that exclusion by the City would render the City’s financial statements incomplete or misleading. Based upon these criteria, 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 eight 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, January 1, 2007 and again on January 1, 2010. 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 20.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 21.

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) guidance 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 guidance 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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

**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.

*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. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. 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:

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

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.

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 (a) grants and other resources whose use is restricted for a particular purpose and (b) the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

*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  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**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.

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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

*Unearned and Deferred Revenues*

Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes and revenue in lieu of taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue in the governmental funds. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2010, are recorded as deferred revenue in the governmental funds.

On governmental fund financial statements, receivables that will not be collected within the available period have 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.

**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 and 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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

**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 investments" 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 with fiscal agent". 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 assets and liabilities – agency funds as "cash in segregated accounts".

During the year, investments were limited to Federal Home Loan Mortgage Corporation (FHLMC) multical mortgage guaranteed partnership certificates, FHLMC multical guaranteed partnership certificates, Federal National Mortgage Association (FNMA) guaranteed REMIC pass thru certificates, Federal National Reserve (FNR) Series 1989-27 Class Y GTD Pass Thru Certificate, FHLMC bonds, FHLMC notes, Federal Home Loan Bank (FHLB) bonds, FNMA bonds, FNMA notes, Federal Farm Credit Bank (FFCB) bonds, Government National Mortgage Association (GNMA) bonds, Eaton Vance Prime Mutual Fund, U.S. government money market mutual funds, negotiable certificates of deposit, and STAR Ohio. All investments are reported at fair value which is based on quoted market prices. Mutual funds are reported at fair value which is determined by the mutual fund's current share price.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2010.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the general fund during 2010 amounted to \$715,372, which includes \$459,466 assigned from other funds.

For purposes of the statement of cash flows, investments with an original maturity of three months or less are considered to be cash equivalents. In addition, all cash and investments of the cash management pool are considered to be cash equivalents because they are sufficiently liquid to permit withdrawal by the proprietary funds on demand. Investments with maturities greater than three months that are not part of the cash management pool are not considered to be cash equivalents.

**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, 2010, 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  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**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, right of ways, easements 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:

Descriptions	Estimated Life
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment:	
Machinery and equipment	3-30 years
Furniture and fixtures	20 years
Computers	5 years
Vehicles	3-8 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
Alleys, fiber optics, etc.	20-65 years
Storm sewer lines	65 years
Sewer and water lines	65 years
Miscellaneous water and sewer infrastructure	25-65 years

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

**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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

The City records a liability for all accumulated unused vacation time and compensatory time when earned for all employees after one year of service.

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 Premiums And Bond Issuance Costs**

Premiums and issuance costs for government-wide statements and enterprise fund 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. Bond premiums are presented as an increase to the face amount of the bonds payable whereas issuance costs are recorded as deferred charges.

**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 and debt service.

**N. Fund Balance 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. Fund balance designations are reported as part of unreserved fund balance. Fund balance designations have been presented for monies set aside for the payment of accumulated vacation/sick leave balances upon separation from the City and for a budget reserve equal to 25% of planned general fund revenues as passed by motion resolution of City Council.

**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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

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

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

**P. Interfund Receivables/Payables**

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as “interfund receivable” and “interfund payable.” Interfund balances are eliminated on the government-wide statement of net assets except for any net residual amounts due between governmental and business-type activities, which are presented as “internal balances.” The City had no interfund balances or internal balances at December 31, 2010.

**Q. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for improving the living environment of the City and for monies accumulated in the County permissive tax fund.

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

The government-wide statement of net assets reports \$13,723,679 of restricted net assets, none of which is restricted by enabling legislation.

**R. 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.

**S. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

**T. 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.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 3 – ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principle**

For fiscal year 2010, the City has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. In accordance with the implementation GASB Statement No. 51, the City has reported intangible assets on a separate line in Note 9 and has reflected intangible assets as indicated in the financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the City.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the City.

**B. Restatement of Net Assets**

Net assets of the governmental activities have been restated at December 31, 2009 to properly report the revenue recognition of revenue in lieu of taxes receivable at December 31, 2009 in accordance with guidance received from the Auditor of the State (AOS) of Ohio in a Bulletin dated July 16, 2010. This guidance, issued to provide uniformity among local governments in Ohio, calls for payments in lieu of taxes to be accrued similar to property taxes.

The restatement had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets at December 31, 2009	\$ 98,726,533
Adjustment for revenue recognition of revenue in lieu of taxes receivable	<u>(1,307,988)</u>
Restated net assets at January 1, 2010	<u>\$ 97,418,545</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**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 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 and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses 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); and,
- (f) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund.

<b>Net Change in Fund Balance</b>	<u>General</u>
Budget basis	\$ (5,359,179)
Net adjustment for revenue accruals	1,381,938
Net adjustment for expenditure accruals	(467,387)
Adjustment for encumbrances	<u>5,779,616</u>
GAAP basis	<u><u>\$ 1,334,988</u></u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 - DEPOSITS AND INVESTMENTS** *(continued)*

Inactive deposits are public deposits that the City 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 in 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 - DEPOSITS AND INVESTMENTS** *(continued)*

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

*Cash with Fiscal Agent:* At year end, the City had \$144,768 on deposit with the Franklin County Treasurer. The data regarding insurance and collateralization can be obtained from the Franklin County Comprehensive Annual Financial Report for the year ended December 31, 2010. This amount is not included in the City's depository balance below.

*Cash in Segregated Accounts:* At year end, the City had \$21,835 deposited with a financial institution for monies related to the Mayor's Court agency fund. This amount is included in the City's depository balance below.

**Deposits with Financial Institutions**

At December 31, 2010, the carrying amount of all City deposits was \$(552,244). A liability was not recorded for the negative amount of deposits because there was no actual overdraft due to the "zero balance" nature of the City's bank accounts. The bank balance of all City deposits was \$2,275,337. Of the bank balance, \$1,969,334 was exposed to custodial risk as discussed below and \$306,003 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. As permitted by Ohio Revised Code, the City's deposits are collateralized by a pool of eligible securities deposited with Federal Reserve Banks, or at member banks of the Federal Reserve System, in the name of the depository bank and pledged as a pool of collateral against all public deposits held by the depository. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

**Investments**

As of December 31, 2010, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>1 Year or Less</u>	<u>1 to 2 Years</u>	<u>2 to 3 Years</u>	<u>Greater Than 3 Years</u>
FNMA guaranteed REMIC pass thru certificate	\$ 8,876	\$ -	\$ -	\$ -	\$ 8,876
FNMA series 2003-28 class KW guaranteed pass thru certificate	350,196	-	-	-	350,196
FNMA series 2003-33 class PE guaranteed pass thru certificate	100,175	-	-	-	100,175
FNMA 2004 W10 class A24 total return bond	175,013	-	-	-	175,013
GNMA series 2004-093 class 93-PB guaranteed REMIC pass thru certificate	686,308	-	-	-	686,308
GNMA series 2008-30 class AB guaranteed pass thru certificate	541,367	-	-	-	541,367
FNMA bonds	17,985,276	-	-	2,502,660	15,482,616
FNMA notes	1,111,763	-	-	-	1,111,763
FHLMC bonds	5,646,366	-	150,696	1,000,780	4,494,890
FHLMC notes	3,503,402	-	-	42,144	3,461,258
GNMA note	699,370	-	-	-	699,370
FHLB bond	3,764,958	-	-	1,122,828	2,642,130
FFCB bonds	239,347	-	-	-	239,347
Corporate bond	95,462	95,462	-	-	-
U.S. government money market mutual funds	1,669,757	1,669,757	-	-	-
Negotiable certificates of deposit	10,377,440	3,411,541	3,213,284	2,750,373	1,002,242
STAR Ohio	4,582,571	4,582,571	-	-	-
<b>Total</b>	<b>\$ 51,537,647</b>	<b>\$ 9,759,331</b>	<b>\$ 3,363,980</b>	<b>\$ 7,418,785</b>	<b>\$ 30,995,551</b>

The weighted average length to maturity of the investments is 5.45 years.

*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 City's investments in FHLB bonds, FNMA bonds and notes, FHLMC bonds and notes, FFCB bonds and GNMA note carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The FNMA guaranteed pass thru certificate, the FNMA series 2003-28 class KW guaranteed pass thru certificate, the FNMA series 2003-33 class PE guaranteed pass thru certificate, the FNMA 2004 W10 class A24 guaranteed REMIC pass thru certificate, the GNMA series 2004-093 class 93-PB guaranteed REMIC pass thru certificate and the GNMA series 2008-32 class AB guaranteed pass thru certificate carry a rating of AAA by Standard and Poor's. STAROhio and the U.S. government money market mutual funds carry a rating of AAAM by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.



**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency bonds and notes and the FNMA guaranteed pass thru certificate, the FNMA series 2003-28 class KW guaranteed pass thru certificate, the FNMA series 2003-33 class PE guaranteed pass thru certificate, the FNMA 2004 W10 class A24 guaranteed REMIC pass thru certificate, the GNMA series 2004-093 class 93-PB guaranteed REMIC pass thru certificate and the GNMA series 2008-32 class AB guaranteed pass thru certificate and the GNMA note are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

*Concentration of Credit Risk:* The City's investment policy addresses concentration of credit risk by requiring investments to be diversified to reduce the risk of loss resulting from over concentration of assets in a specific issue or specific class of securities.

The following table includes the percentage of each investment type held by the City at December 31, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FNMA guaranteed REMIC pass thru certificate	\$ 8,876	0.02
FNMA series 2003-28 class KW guaranteed pass thru certificate	350,196	0.68
FNMA series 2003-33 class PE guaranteed pass thru certificate	100,175	0.19
FNMA 2004 W10 class A24 total return bond	175,013	0.34
GNMA series 2004-093 class 93-PB guaranteed REMIC pass thru certificate	686,308	1.33
GNMA series 2008-30 class AB guaranteed pass thru certificate	541,367	1.05
FNMA bonds	17,985,276	34.89
FNMA notes	1,111,763	2.16
FHLMC bonds	5,646,366	10.96
FHLMC notes	3,503,402	6.80
GNMA note	699,370	1.36
FHLB bond	3,764,958	7.31
FFCB bonds	239,347	0.46
Corporate bond	95,462	0.19
U.S. government money market mutual funds	1,669,757	3.24
Negotiable certificates of deposit	10,377,440	20.13
STAR Ohio	<u>4,582,571</u>	<u>8.89</u>
Total	<u>\$ 51,537,647</u>	<u>100.00</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 5 - DEPOSITS AND INVESTMENTS** *(continued)*

**Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (552,244)
Investments	51,537,647
Cash with fiscal agent	<u>144,768</u>
Total	<u>\$ 51,130,171</u>
<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 30,916,594
Business-type activities	19,748,968
Fiduciary funds	<u>464,609</u>
Total	<u>\$ 51,130,171</u>

**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 monthly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. All proceeds go to the general fund.

**NOTE 7 – PROPERTY TAX**

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**NOTE 7 – PROPERTY TAX** *(continued)*

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

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 collected. Property taxes receivable represents real property taxes, public utility taxes, tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2010 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2010 was \$2.40 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 775,063,860
Commercial/Industrial/Mineral	<u>175,663,650</u>
Total Assessed Value	\$ <u>950,727,510</u>

**NOTE 8 – RECEIVABLES**

Receivables at December 31, 2010, consisted of property, other local, revenue in lieu of, 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 amount due from other governments follows:

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 8 – RECEIVABLES** *(continued)*

<u>Governmental activities:</u>	<u>Amount</u>
Clean Ohio Revitalization Grant	\$ 89,359
Local Government	721,887
Gas/Cents Per Gallon Tax	569,901
Homestead and Rollback	145,990
Ohio Department of Transportation Grant	40,964
Motor Vehicle License Tax	144,615
Recreation Trails Program Grant	589,137
Estate Tax	163,314
Mayor's Court	35,795
Drug Abuse Resistance Education Grant	1,198
Department of Justice Bulletproof Vest Partnership Grant	7,455
The Edward Byrne Memorial Justice Assistance Recovery Act Grant	49,894
Justice Assistance Grant	10,913
EPA Revolving Loan Grant	994,753
Total Due From Other Governments	<u><u>\$ 3,565,175</u></u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 9 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2010, was as follows:

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 18,113,001	\$ 1,112,270	\$ -	\$ 19,225,271
Right of ways	-	760,503	-	760,503
Easements	-	23,364	-	23,364
Construction in progress	7,297,686	4,154,016	(5,089,791)	6,361,911
Total capital assets, not being depreciated	<u>25,410,687</u>	<u>6,050,153</u>	<u>(5,089,791)</u>	<u>26,371,049</u>
Depreciable capital assets:				
Buildings	25,308,042	-	-	25,308,042
Improvements other than buildings	8,445,575	-	-	8,445,575
Machinery and equipment	6,812,933	1,889,478	-	8,702,411
Vehicles	3,325,086	99,083	(217,719)	3,206,450
Infrastructure	72,286,199	3,746,775	-	76,032,974
Total depreciable capital assets	<u>116,177,835</u>	<u>5,735,336</u>	<u>(217,719)</u>	<u>121,695,452</u>
Less: accumulated depreciation:				
Buildings	(3,365,158)	(497,972)	-	(3,863,130)
Improvements other than buildings	(3,125,317)	(351,479)	-	(3,476,796)
Machinery and equipment	(4,134,414)	(552,204)	-	(4,686,618)
Vehicles	(2,501,670)	(310,333)	217,719	(2,594,284)
Infrastructure:	(45,880,639)	(1,848,157)	-	(47,728,796)
Total accumulated depreciation	<u>(59,007,198)</u>	<u>(3,560,145)</u>	<u>217,719</u>	<u>(62,349,624)</u>
Depreciable capital assets, net	<u>57,170,637</u>	<u>2,175,191</u>	<u>-</u>	<u>59,345,828</u>
Governmental activities capital assets, net	<u>\$ 82,581,324</u>	<u>\$ 8,225,344</u>	<u>\$ (5,089,791)</u>	<u>\$ 85,716,877</u>

Depreciation expense was charged to governmental programs as follows:

Security of persons and property	\$ 317,959
Leisure time activities	411,219
Transportation	1,448,364
General government	748,025
Community environment	634,578
Total depreciation expense	<u>\$ 3,560,145</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 9 – CAPITAL ASSETS** *(continued)*

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land	\$ 288,706	\$ 11,275	\$ -	\$ 299,981
Right of ways	-	22,886	-	22,886
Easements	-	9,350	-	9,350
Construction in progress	1,584,424	1,377,117	(1,492,612)	1,468,929
Total capital assets, not being				
Depreciated	1,873,130	1,420,628	(1,492,612)	1,801,146
Depreciable capital assets:				
Buildings	991,000	-	-	991,000
Improvements other than buildings	643,370	-	-	643,370
Machinery and equipment	802,096	1,297,481	-	2,099,577
Vehicles	682,076	-	-	682,076
Infrastructure:				
Storm sewer lines	13,466,569	-	-	13,466,569
Water lines and miscellaneous infrastructure	40,204,457	504,675	-	40,709,132
Sewer lines and miscellaneous infrastructure	24,598,396	504,402	-	25,102,798
Total depreciable capital assets	81,387,964	2,306,558	-	83,694,522
Less: accumulated depreciation:				
Buildings	(415,545)	(28,461)		(444,006)
Improvements other than buildings	(18,695)	(32,168)		(50,863)
Machinery and equipment	(374,820)	(87,423)		(462,243)
Vehicles	(242,394)	(85,260)		(327,654)
Infrastructure:				
Storm sewer lines	(3,679,605)	(205,888)		(3,885,493)
Water lines and miscellaneous infrastructure	(16,857,932)	(635,776)		(17,493,708)
Sewer lines and miscellaneous infrastructure	(9,596,038)	(379,504)		(9,975,542)
Total accumulated depreciation	(31,185,029)	(1,454,480)	-	(32,639,509)
Depreciable capital assets, net	50,202,935	852,078	-	51,055,013
Business-type activities capital				
assets, net	\$ 52,076,065	\$ 2,272,706	\$ (1,492,612)	\$ 52,856,159

Depreciation expense was charged to the enterprise funds as follows:

Water	\$ 722,052
Sewer	479,458
Storm Water	252,970
Total depreciation expense	\$ 1,454,480

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2010 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.5% and 11.1%, respectively. The City's contribution rate for 2010 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2010 was 8.50% from January 1 through February 28, 2010 and 9.00% from March 1 through December 31, 2010. The City's contribution rate for pension benefits for members in the Combined Plan for 2010 was 9.27% from January 1 through February 28, 2010 and 9.77% from March 1 through December 31, 2010. For those plan members in law enforcement and public safety pension contributions were 12.37% from January 1 through February 28, 2010 and 12.87% from March 1 through December 31, 2010.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$1,128,945, \$607,489, and \$474,000, respectively; 95.12% has been contributed for 2010 and 100% has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2010 were \$65,233 made by the City and \$46,595 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

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

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% for police officers. Contribution rates are established by State statute. For 2010, the portion of the City's contributions to fund pension obligations was 12.75% for police officers.

The City's required contributions for pension obligations to OP&F for police officers was \$575,664 for the year ended December 31, 2010, \$578,573 for the year ended December 31, 2009, and \$547,440 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 70.38% has been contributed for police for 2010.

**NOTE 11 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2010, local government employers contributed 14.00% of covered payroll (17.87% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2010 was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2010 was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$640,246, \$433,055, and \$474,000, respectively; 95.12% has been contributed for 2010 and 100% has been contributed for 2009 and 2008.



**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 11 - POSTRETIREMENT BENEFIT PLANS** *(continued)*

**B. Ohio Police and Fire Pension Fund**

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers was \$304,763 for the year ended December 31, 2010, \$306,303 for the year ended December 31, 2009, and \$289,821, for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 70.38% has been contributed for police for 2010.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 12 – EMPLOYEE BENEFITS** *(continued)*

**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 time limits established by the negotiated agreements. Current policy allows accumulation of compensatory time to levels in the negotiated agreements.

**B. Deferred Compensation Plan**

Employees of the City may elect to participate in the ING Life Insurance and Annuity Company 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. Deferred pay and any income earned on it are 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. For those employees covered under the labor contract with United Steel, Paper, Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International (USW), the City provides health care, dental, and vision insurance coverage through the Steelworker Health and Welfare Plan. Life insurance for employees covered under the labor contract with USW is provided by the Standard Insurance Company.

**NOTE 13 – CAPITAL LEASES - LESSEE DISCLOSURE**

In 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 2010 totaled \$18,330 in the governmental funds. There is no amount outstanding on the lease as of December 31, 2010.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 13 – CAPITAL LEASES - LESSEE DISCLOSURE** *(continued)*

The assets acquired through capital leases as of December 31, 2010, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Leased equipment	\$125,052	\$125,052	\$0

**NOTE 14 – LEASE RECEIVABLE**

City-owned land is leased to six companies: H. and G. Realty, Ball and Galloway, B. and J. Smith, Tagg-Marr-Rear, Contemporary Construction and Palinco, Inc.

The lease periods are twenty-eight to thirty-five years. At the conclusion of the lease periods, 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.

The following is a schedule of the future long-term lease receivable as of December 31, 2010.

Year Ending December 31,	Amount
2011	\$38,691
2012	24,933
2013	17,417
2014	9,186
2015	3,951
Total Lease Receivable	\$94,178

**NOTE 15 – SHORT TERM LOAN**

On April 15, 2010, the City received \$45,000 in loan proceeds from the Ohio Water Development Authority (OWDA) in the Storm Water Fund for the Sycamore Run Stream Restoration and Retention Basin Project. On April 30, 2010, the City received \$45,000 in American Recovery and Reinvestment Act (ARRA) funds used for principal forgiveness of this loan.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 16 – 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 fiscal year 2010 follows:

Types / Issues	Balance 12/31/2009	Issued	Retired	Balance 12/31/2010	Due Within One Year
<u>Business-type activities:</u>					
<u>General obligation bonds</u>					
Water fund					
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	\$ 321,769	\$ -	\$ (11,949)	\$ 309,820	\$ 12,802
Premium on bonds issued	7,071	-	(404)	6,667	-
Sewer fund					
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	321,770	-	(11,949)	309,821	12,802
Premium on bonds issued	7,070	-	(404)	6,666	-
Storm water fund					
2005 - Creekside Phase II and Morrison Road					
Serial bonds 3.25% to 5.0%	255,863	-	(11,710)	244,153	11,710
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	1,845,000	-	(70,000)	1,775,000	70,000
Premium on bonds issued	40,619	-	(2,321)	38,298	-
Total general obligations bonds	<u>2,799,162</u>	<u>-</u>	<u>(108,737)</u>	<u>2,690,425</u>	<u>107,314</u>
<u>Other long-term obligations</u>					
1996 - OPWC Loan 3.5 %	46,926	-	(11,128)	35,798	11,521
Compensated absences payable	36,756	50,796	(50,380)	37,172	37,172
Total other long-term obligations	<u>83,682</u>	<u>50,796</u>	<u>(61,508)</u>	<u>72,970</u>	<u>48,693</u>
Total business-type activities	<u>\$ 2,882,844</u>	<u>\$ 50,796</u>	<u>\$ (170,245)</u>	<u>\$ 2,763,395</u>	<u>\$ 156,007</u>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 16 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS** *(continued)*

Types / Issues	Balance 12/31/2009	Issued	Retired	Balance 12/31/2010	Due Within One Year
<u>Governmental activities:</u>					
<u>General obligation bonds</u>					
2005 - Creekside Phase II and Morrison Road					
Serial bonds 3.25% to 5.0%	\$ 8,749,137	\$ -	\$ (393,290)	\$ 8,355,847	\$ 408,290
Term bonds 4.25%	3,185,000	-	-	3,185,000	-
Premium on bonds issued	279,246	-	(13,350)	265,896	-
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	8,161,461	-	(266,102)	7,895,359	319,395
Premium on bonds issued	188,266	-	(10,758)	177,508	-
<b>Total general obligations bonds</b>	<b>20,563,110</b>	<b>-</b>	<b>(683,500)</b>	<b>19,879,610</b>	<b>727,685</b>
<u>Other long-term obligations</u>					
2006 - OPWC Loan 0%	717,852	-	(95,714)	622,138	95,713
2009 - OPWC Loan 0%	478,172	558,148	-	1,036,320	51,816
Capital lease obligation	18,330	-	(18,330)	-	-
Compensated absences payable	2,313,432	739,177	(853,093)	2,199,516	687,593
<b>Total other long-term obligations</b>	<b>3,527,786</b>	<b>1,297,325</b>	<b>(967,137)</b>	<b>3,857,974</b>	<b>835,122</b>
<b>Total governmental activities</b>	<b>\$ 24,090,896</b>	<b>\$ 1,297,325</b>	<b>\$ (1,650,637)</b>	<b>\$ 23,737,584</b>	<b>\$ 1,562,807</b>

The City's overall legal debt margin (the ability to issue additional amounts of general obligation debt) was \$81,934,979, with an unvoted debt margin of \$52,931,406 at December 31, 2010.

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

Year Ending December 31,	<i>Business-Type Activities</i>							
	<i>Water General Obligation Bonds</i>		<i>Sewer General Obligation Bonds</i>		<i>Stormwater General Obligation Bonds</i>		<i>Sewer OPWC Loan</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2011	\$ 12,802	\$ 14,525	\$ 12,802	\$ 14,525	\$ 81,710	\$ 94,535	\$ 11,521	\$ 1,153
2012	12,802	13,980	12,802	13,980	87,295	91,151	11,928	746
2013	13,656	13,436	13,656	13,436	92,881	87,532	12,349	325
2014	14,509	12,856	14,509	12,856	93,466	83,682	-	-
2015	14,509	12,239	14,509	12,239	99,052	79,776	-	-
2016 - 2020	84,496	51,176	84,497	51,176	564,044	330,705	-	-
2021 - 2025	106,689	29,019	106,689	29,019	710,705	182,854	-	-
2026 - 2027	50,357	3,798	50,357	3,798	290,000	22,000	-	-
<b>Totals</b>	<b>\$ 309,820</b>	<b>\$ 151,029</b>	<b>\$ 309,821</b>	<b>\$ 151,029</b>	<b>\$ 2,019,153</b>	<b>\$ 972,235</b>	<b>\$ 35,798</b>	<b>\$ 2,224</b>

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 16 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS** *(continued)*

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

Year Ending December 31,	Serial Bonds		Term Bonds		OPWC Loan
	Principal	Interest	Principal	Interest	Principal
2011	\$ 727,685	\$ 892,629	\$ -	\$ -	\$ 147,529
2012	757,100	864,762	-	-	147,530
2013	789,807	835,757	-	-	147,529
2014	822,515	805,506	-	-	147,530
2015	846,929	772,834	-	-	147,529
2016 - 2020	4,856,964	3,262,421	-	-	402,651
2021 - 2025	6,165,919	1,951,917	-	-	259,080
2026 - 2030	1,284,287	97,154	3,185,000	417,350	259,080
Totals	\$ 16,251,206	\$ 9,482,980	\$ 3,185,000	\$ 417,350	\$ 1,658,458

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 as follows:

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

**B. General Obligation Bonds**

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. The City obtained a financial guarantee insurance policy from Ambac Assurance Corporation (Ambac) to insure the payment of the principal and interest on the bonds when due. 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 31, 2010, all of the governmental activities and enterprise bond proceeds have been spent toward the project.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 16 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS** *(continued)*

During 2007, the City issued \$11,350,000 in general obligation bonds for various purposes including park improvements, street improvements, broadband strategic plan development, infrastructure improvements, and storm water system improvements. \$8,683,665 was issued as governmental activities general obligation bonds and \$2,666,335 was issued as enterprise obligation bonds. All are direct obligations and pledge the full faith and credit of the City for repayment. The City obtained a financial guarantee insurance policy from MBIA Insurance Corporation (MBIA) to insure the payment of the principal and interest on the bonds when due. These bonds are 20 year serial bonds with varying amounts of principal maturing each year. 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 water, sewer, and storm water systems. As of December 31, 2010, \$8,507,646 of the governmental activities bond proceeds had been spent toward the project leaving \$176,019 in unspent proceeds at December 31, 2010. As of December 31, 2010, \$2,637,991 of the enterprise bond proceeds had been spent toward the project leaving \$28,344 in unspent proceeds in the storm water fund at December 31, 2010. There were no remaining unspent bond proceeds in the water and sewer enterprise funds at December 31, 2010.

**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. The 10 year loan is payable with property taxes from the debt service fund. As of year end, all loan proceeds had been spent.

The 2009 OPWC Loan consists of \$1,036,320 borrowed from the Ohio Public Works Commission for U.S. Route 62 roadway improvements. The 20 year loan will be paid with property taxes from the debt service fund.

**D. Compensated Absences / Capital Leases**

Compensated absences will be paid from the general, street maintenance and repair, storm water, water and sewer funds. Capital leases are paid from the general fund.

**CITY OF GAHANNA  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 17 – CONSTRUCTION COMMITMENTS**

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2010, the significant outstanding construction commitments were:

Project	Contract Amount	Amount Completed	Balance 12/31/2010
800 MHZ Radio System	\$ 368,484	\$ 309,735	\$ 58,749
Big Walnut Trail - Section 7	1,081,558	453,011	628,547
Capacity Management Operations	461,695	168,978	292,717
Cherry Road / Ballard Drive Sewer Line Construction	380,603	243,661	136,942
Debra Lane / Shara Park Place / Sandra Court Waterline	175,000	117,904	57,096
Debra Lane / Shara Park/ Sandra Court/ Goshen Lane Sewer Line Construction	308,673	212,851	95,821
E-Mail Archive & E-Discovery Solution	37,695	7,195	30,500
Foxwood/Rice Ave 2007 Bond Money	67,456	29,472	37,985
Fuel Station	8,200	7,015	1,185
Hamilton / Granville	583,304	566,990	16,314
IT Security - Log Aggregation & Alerting	26,655	15,112	11,543
McKenna Creek Watershed Storm Improvements	74,000	7,400	66,600
Network Digital Video Recorder	83,000	57,535	25,465
NG911 Hardware	15,586	493	15,093
Purchase 94 Price Road	230,000	120,820	109,180
Recreation Trails-Bond Proceeds	275,073	32,186	242,887
SCADA Upgrades	93,987	54,440	39,547
Server Replacements (\$90,000)	50,890	5,100	45,790
Shull / Carpenter Water/Stormwater Line	420,122	303,655	116,467
Software Upgrade	12,000	-	12,000
Souder Ditch Watershed Improvements	30,000	-	30,000
Sreco Sewer Machine Extention - Replacement for #562 (1993)	20,000	-	20,000
Sreco Sewer Machine Extention Trailer - Replacement for #562T (1993)	5,000	-	5,000
Stygler/Agler/US62 Widening (OPWC Funding)	1,111,545	917,864	193,681
Sungard	6,725	-	6,725
Techcenter Drive Extention West	2,826,858	2,813,638	13,220
US 62 (Johnstowne Road Improvements)	1,698,197	1,309,106	389,091
West Gahanna Sanitary Sewer	106,791	76,680	30,111
	<u>\$ 10,559,097</u>	<u>\$ 7,830,841</u>	<u>\$ 2,728,256</u>

**NOTE 18 – 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 official's 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  
FRANKLIN COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

**NOTE 19 – INTERFUND TRANSFERS**

Transfers made during the year ended December 31, 2010, were as follows:

		Transfers To	
		Nonmajor Governmental	Total
Transfers From	General	\$ 1,489,408	\$ 1,489,408
	Nonmajor		
	Governmental	522,940	522,940
	Total	\$ 2,012,348	\$ 2,012,348

Transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfers from the general and nonmajor governmental funds to the bond retirement fund (a nonmajor governmental fund) were made to service annual debt payments.

**NOTE 20 – 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 eight political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. The City pays monthly contributions to the Consortium, which are used to cover claims and administrative costs, and to purchase excess loss insurance for the Pool. 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 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 \$6,626,627 to a maximum of \$1,000,000 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. No such loss has occurred in the past four years. 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 21– 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  
FRANKLIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

**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, 2010 to December 31, 2010, 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.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Gahanna  
Franklin County  
200 South Hamilton Road  
Gahanna, Ohio 43230

To the Members of City Council and the Mayor:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Gahanna, Franklin County, Ohio (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 10, 2011. 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*.

### **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 audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-01 described in the accompanying schedule of findings to be a material weakness.

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City of Gahanna  
Franklin County  
Independent Accountants' Report on Internal Control  
Over Financial Reporting and Compliance and Other  
Matters Required by *Government Auditing Standards*  
Page 2

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 10, 2011.

The City's response to the finding identified in our audit is described in the accompanying schedule of finding. We did not audit the City's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management, City Council, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

August 10, 2011

**CITY OF GAHANNA  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

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

**FINDING NUMBER 2010-01**

**Material Weakness  
Financial Reporting**

The City utilizes the Sungard accounting system and currently has monitoring controls over daily cash-basis transactions entered into the system. At year-end, cash-basis information from the accounting system is converted into financial statements reported under Accounting Principles Generally Accepted in the United States of America. Accrual information is prepared by the Finance Director and Deputy Finance Director. Trial balances and the financial statements are prepared by an outside firm contracted to assist with the City's GAAP conversion.

There were three adjustments to record payables not included on the financial statements, one adjustment to remove an improperly booked liability and two reclassifications to properly reflect current and long term portion of the City's debt liability. Errors ranged in dollar amount from \$188 to \$2,153,970. These adjustments were posted to the financial statements, and, where applicable, the City's accounting records. Seven unadjusted differences ranging in dollar amount from \$7,400 to \$500,475 were also identified during the audit. Errors included revenue and expenditure reclassifications, budgetary adjustments, improperly posted liabilities and unrecorded payables.

We recommend the City implement additional internal control procedures over financial reporting that will provide additional assurance over the completeness and accuracy of the information reported within the financial statements. Such procedures may include additional reviews provided by the Finance Director, a designated employee or a member of management. Such items should include a review of the financial statements, the notes to the financial statements, and the source documentation provided by the complier of the financial statements. In addition, an analytical comparison of the current year report to the prior year report should be conducted to help identify obvious errors or omissions.

**Officials' Response:**

Procedures have been put in place to ensure that all appropriate payables are included on the financial statements. In addition, measurers will be taken with the intent to eliminate the need for revenue and expenditure reclassifications. This will include a thorough review of revenues and expenses and the categories to which they are assigned.

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# Dave Yost • 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  
SEPTEMBER 1, 2011