



Dave Yost · Auditor of State



**CITY OF GAHANNA  
FRANKLIN COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Auditor's Report.....	1
General Purpose External Financial Statements:	
Management's Discussion and Analysis .....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	19
Statement of Activities.....	20
Financial Statements:	
Balance Sheet – Governmental Funds .....	21
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – (Non-GAAP Budget Basis) – General Fund.....	25
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – (Non-GAAP Budget Basis) – Tax Increment Equivalent Fund .....	26
Statement of Net Position – Proprietary Funds.....	27
Statement of Revenues, Expenditures, and Changes in Net Position – Proprietary Funds .....	28
Statement of Cash Flows – Proprietary Funds .....	29
Statement of Fiduciary Assets and Liabilities.....	30
Notes to the Basic Financial Statements .....	31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	63

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of City Council and the Mayor:

### ***Report on the Financial Statements***

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Opinion***

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,

City of Gahanna  
Franklin County  
Independent Auditor's Report  
Page 2

and the aggregate remaining fund information of City of Gahanna, Franklin County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Tax Increment Equivalent Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 24 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standards No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 14, 2013

**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(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, 2012. 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 2012 are as follows:

- The Statement of Net Position, accounted for on an accrual basis of accounting, reports an increase of total net position of the City of \$3,846,435 or 2% from 2011. Net position of Governmental Activities increased \$5,563,852 or 6% from 2011 and net position of Business-type Activities decreased \$1,717,417 or 3% from 2011.
- The Statement of Activities, accounted for on an accrual basis of accounting, reports general revenues of \$22,767,629 or 69% of total Governmental Activities revenue. Program specific revenues accounted for \$10,408,659 or 31% of total Governmental Activities revenue.
- The Statement of Activities reports \$27,612,436 in expenses related to Governmental Activities; \$10,408,659 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the Governmental Activities, \$17,203,777, were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$22,767,629.
- The Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds, accounted for on a modified accrual basis of accounting, reports General Fund revenues and other financing sources of \$22,842,507 in 2012. This represents a decrease of \$48,815 or 0.2% from 2011. The expenditures and other financing uses of the General Fund, which totaled \$26,300,854 in 2012, increased \$5,030,017 or 24% from 2011. The net decrease in fund balance for the General Fund was \$3,458,347 or 16%.
- The Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds, reports Tax Increment Equivalent Fund revenues of \$1,928,295 during 2012. The expenditures and other financing uses of the Tax Increment Equivalent Fund were \$1,675,833 during 2012. The net increase in fund balance for the Tax Increment Equivalent Fund was \$252,462 or 9%.
- The Statement of Revenues, Expenditures and Changes in Fund Balance for Governmental Funds, reports Capital Improvement Fund revenue and other financing sources of \$3,695,388 in 2012. The expenditures of the Capital Improvement Fund totaled \$1,321,459 in 2012. The net increase in fund balance for the Capital Improvement Fund was \$2,373,929 or 99%.
- The Statement of Net Position reports a decrease of \$1,717,417 in net position for 2012 for the Business-type Activities, which consist of the Water, Sewer and Storm Water Enterprise Funds. The decrease is due to charges for services revenue not maintained at a level sufficient to cover expenses in the sewer fund resulting in a decrease of net position of \$2,099,064. The rates established for the Sewer Fund were deliberately set lower than cost by the City to mitigate rate increases for sewer services by utilizing available net position of the Sewer Fund for operations. The Water and Storm Water Funds had increases of \$255,025 and \$122,845 of net position respectively.

**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(UNAUDITED)

### **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.

The Statement of Net Position located on page 18 and Statement of Activities located on page 19 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 beginning on page 20 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 Position and the Statement of Activities***

While this document contains a number of funds used by the City to provide programs and activities, the Government-wide Statements view the City as a whole by looking at all financial transactions and asking the question, "How did we do financially during 2012?" The Statement of Net Position 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 takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net position and changes in the net position. The change in net position is important because it tells the reader whether, 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 could include the City's income and property tax base, current income and property tax laws, facility conditions and required community programs.

In the Statement of Net Position 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 income and property taxes, intergovernmental revenues 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.

**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(UNAUDITED)

Fund Financial Statements 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 focus on the City's most significant funds. The analysis of the City's Major Governmental and Proprietary Funds begins on page 11.

***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 reader may better understand the long-term impact of the City'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 reconciliations are located on pages 21 and 23.

The City maintains a number of individual Governmental Funds and has segregated them into two categories: major funds and non-major funds. The City's major Governmental Funds are the General Fund, Tax Increment Equivalent Fund (TIF) 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. The basic Governmental Fund Financial Statements can be found on pages 20-25 of this report.

***Proprietary Funds***

The City maintains two types of Proprietary Funds. The first type of Proprietary Funds is the Enterprise Funds 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. These three funds are also all major Enterprise Funds. The second type of Proprietary Funds is the Internal Service Fund used by the City to accumulate and allocate workers compensation insurance costs internally among the City's various funds. The basic Proprietary Fund Financial Statements can be found on pages 26-28 of this report.

***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 Statements 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. The basic Fiduciary Fund Financial Statement can be found on page 29 of this report.

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

The notes provide additional information essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. These notes to the Basic Financial Statements can be found on pages 30-59 of this report.

**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

### Government-Wide Financial Analysis

The Statement of Net Position provides the perspective of the City as a whole. The table below provides a summary of the City's Net Position at December 31, 2012 and December 31, 2011.

	<b>Net Position</b>					
	Governmental Activities 2012	Restated Governmental Activities 2011	Business-type Activities 2012	Restated Business-type Activities 2011	2012 Total	2011 Total
<b>Assets</b>						
Current and Other Assets	\$ 46,361,523	\$ 40,574,580	\$ 20,341,518	\$ 23,401,026	\$ 66,703,041	\$ 63,975,606
Capital Assets, Net	88,789,561	89,522,697	51,544,455	52,542,004	140,334,016	142,064,701
Total assets	<u>135,151,084</u>	<u>130,097,277</u>	<u>71,885,973</u>	<u>75,943,030</u>	<u>207,037,057</u>	<u>206,040,307</u>
<b>Liabilities</b>						
Current and Other Liabilities	1,588,379	4,497,887	2,521,477	4,772,039	4,109,856	9,269,926
Long-term Liabilities	27,537,538	28,316,982	2,532,387	2,642,432	30,069,925	30,959,414
Total Liabilities	<u>29,125,917</u>	<u>32,814,869</u>	<u>5,053,864</u>	<u>7,414,471</u>	<u>34,179,781</u>	<u>40,229,340</u>
Deferred Inflows of Resources	<u>3,024,539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,024,539</u>	<u>-</u>
<b>Net Position</b>						
Net Investment in Capital Assets	63,455,491	68,285,441	49,068,153	49,960,158	112,523,644	118,245,599
Restricted	18,155,103	11,049,344	-	-	18,155,103	11,049,344
Unrestricted	21,235,666	17,947,623	17,742,989	18,568,401	38,978,655	36,516,024
Total Net Position	<u>\$ 102,846,260</u>	<u>\$ 97,282,408</u>	<u>\$ 66,811,142</u>	<u>\$ 68,528,559</u>	<u>\$ 169,657,402</u>	<u>\$ 165,810,967</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities and deferred inflows of resources by \$169,657,402. At year-end, net position was \$102,846,260 and \$66,811,142 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 assets. At year-end, capital assets represented 68% of total assets. Capital assets include land and land improvements, right of ways, easements, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress. Net investment in capital assets at December 31, 2012, were \$63,455,491 and \$49,068,153 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 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, 2012, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate Governmental and Business-type Activities.

**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

A portion of the City's net position, \$18,155,103 represents resources that are subject to external restriction on how they may be used. In the Governmental Activities, the remaining balance of unrestricted net position of \$21,235,666 may be used to meet the government's ongoing obligations to citizens and creditors. The table below shows the changes in net position for 2012 and 2011.

	Change in Net Position					
	Governmental Activities 2012	Restated Governmental Activities 2011	Business-type Activities 2012	Restated Business-type Activities 2011	2012 Total	2011 Total
<b>Revenues</b>						
Program revenues						
Charges for Services	\$ 3,211,145	\$ 2,709,501	\$ 12,970,668	\$ 11,826,959	\$ 16,181,813	\$ 14,536,460
Operating Grants & Contributions	2,099,228	1,748,552	-	-	2,099,228	1,748,552
Capital Grants & Contributions	5,098,286	1,179,040	-	-	5,098,286	1,179,040
Total Program Revenues	10,408,659	5,637,093	12,970,668	11,826,959	23,379,327	17,464,052
General Revenues						
Income Taxes	16,531,571	14,415,698	-	-	16,531,571	14,415,698
Property Taxes	1,933,031	2,053,053	-	-	1,933,031	2,053,053
Revenue in Lieu of Taxes	1,908,942	1,002,203	-	-	1,908,942	1,002,203
Other Local Taxes	435,863	421,791	-	-	435,863	421,791
Unrestricted Grants & Entitlements	741,106	1,991,744	-	-	741,106	1,991,744
Investment Earnings	492,559	653,169	-	28	492,559	653,197
Increase (Decrease) in Fair Value of Investments	(35,400)	178,767	-	-	(35,400)	178,767
Miscellaneous Transfers	1,004,594	539,491	203,403	158,553	1,207,997	698,044
	(244,637)	(20,000)	244,637	20,000	-	-
Total General Revenues & Transfers	22,767,629	21,235,916	448,040	178,581	23,215,669	21,414,497
Total Revenues & Transfers	33,176,288	26,873,009	13,418,708	12,005,540	46,594,996	38,878,549
<b>Expenses</b>						
General Government	4,456,167	4,591,521	-	-	4,456,167	4,591,521
Security of Persons & Property	9,347,802	8,553,504	-	-	9,347,802	8,553,504
Public Health & Welfare	206,424	215,060	-	-	206,424	215,060
Transportation	4,059,871	5,610,420	-	-	4,059,871	5,610,420
Community Environment	4,517,023	5,790,535	-	-	4,517,023	5,790,535
Leisure Time Activity	3,591,675	2,643,767	-	-	3,591,675	2,643,767
Utility Services	504,919	474,867	-	-	504,919	474,867
Interest & Fiscal Charges	928,555	1,039,207	-	-	928,555	1,039,207
Water	-	-	6,748,836	5,903,450	6,748,836	5,903,450
Sewer	-	-	7,424,007	6,676,639	7,424,007	6,676,639
Storm Water	-	-	963,282	821,295	963,282	821,295
Total Expenses	27,612,436	28,918,881	15,136,125	13,401,384	42,748,561	42,320,265
Change in Net Position	5,563,852	(2,045,872)	(1,717,417)	(1,395,844)	3,846,435	(3,441,716)
Net Position Beginning of Year (Restated)	97,282,408	99,328,280	68,528,559	69,924,403	165,810,967	169,252,683
Net Position End of Year	\$ 102,846,260	\$ 97,282,408	\$ 66,811,142	\$ 68,528,559	\$ 169,657,402	\$ 165,810,967

**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(UNAUDITED)

**Governmental Activities**

The Statement of Activities presents expenses, program revenues, general revenues and changes in net position with expenses categorized as the core functions and activities of the City. Below are the most significant items reported on the Statement of Activities for Governmental Activities.

Net position of Governmental Activities increased \$5,563,852 in 2012. The City experienced a \$3,919,246 increase in capital grants and contributions compared to the prior year. The increase in capital grants and contributions is related to a pledge of intergovernmental revenue from the Mid-Ohio Regional Planning Commission (MORPC) for repayment of a State Infrastructure Bank Loan (SIB) associated with the construction of Tech Center Drive completed in 2011. The City also experienced a \$2,115,873 increase in income tax revenue. This increase was due to an increase in expected but not yet collected income tax revenue for 2012 indicating the stabilization of the local economy.

Security of persons and property expenses, which primarily supports the operations of the police department, accounted for \$9,347,802 of the total expenses of the City. These expenses were partially funded by \$354,525 in direct charges to users of the services and \$243,117 in operating grants and contributions.

General government expense, which includes all general administrative and legislative operations, totaled \$4,456,167. General government expenses were partially funded by \$799,150 in direct charges to users of the services.

Transportation expenses which primarily includes street maintenance and improvement programs, accounted for \$4,059,871 of the total expenses of the City. These expenses were completely funded by \$39,100 in direct charges to users of the services, \$1,856,111 in operating grants and contributions and \$4,680,219 in capital grants and contributions.

Community environment expenses, which primarily support economic development programs, accounted for \$4,517,023 of the total expenses of the City. These expenses were partially funded by \$506,381 in direct charges to users of the services, and \$55,550 in capital grants and contributions.

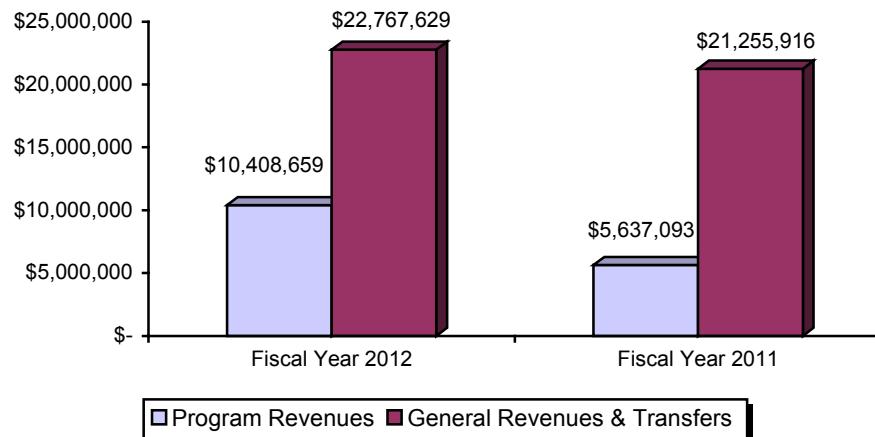
Program revenues, which consist of operating grants and contributions and capital grants and contributions, include state and federal government contributions or grants to the City totaling \$2,099,228 in operating grants and contributions and \$5,098,286 in capital grants and contributions. These revenues are restricted to particular programs or purposes based on the legal requirements of the grantor. Of the total operating and capital grants and contributions, \$1,856,111 and \$4,680,219 respectively subsidized transportation programs.

General revenues totaled \$22,767,629, and amounted to 69% of total governmental revenues. These revenues primarily consist of tax revenue (including income, property, revenue in lieu of, and other local taxes) of \$20,809,407. 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 \$741,106.

**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

The graph below compares the City's general revenues and program revenues for fiscal year 2012 and 2011.

**Governmental Activities – General and Program Revenues**



General revenues remained consistent from 2011 to 2012 with an increase of \$1,511,713 or 7% mainly due to an increase in income tax revenue. Program revenues increased \$4,771,566 or 85% mainly due to the increase in capital grants and contributions resulting from a pledge of revenue from MORPC for repayment of the City's SIB loan.

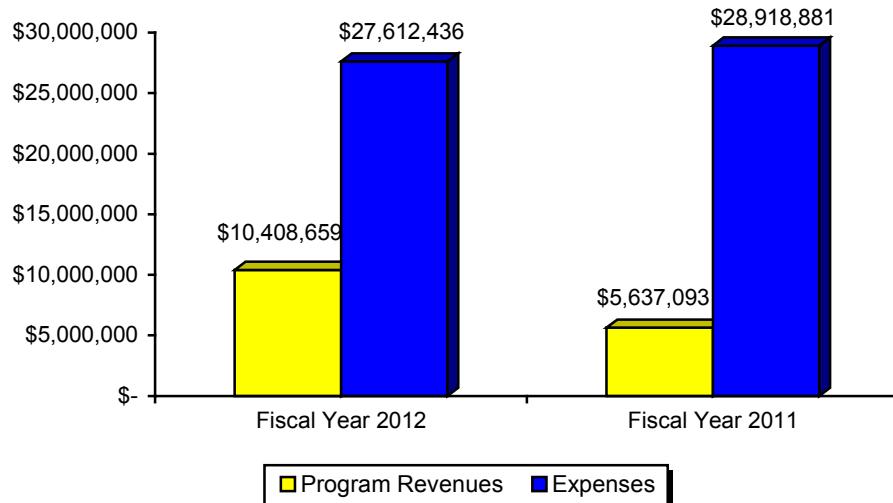
The Statement of Activities shows the cost of program services and the charges for services, grants and contributions offsetting those services. The following table shows, for Governmental Activities, the total cost of services and the net cost of services. That is, it identifies the portion of the cost of these services supported by general revenues. The table below demonstrates the City's high dependence upon general revenues to support its Governmental Activities with 62% of expenses supported through taxes and other general revenues.

	Governmental Activities		
	Total Cost of Services 2012	Net Cost of Services 2012	% of Cost Supported by General Revenue 2012
<b>Program Expenses:</b>			
General Government	\$ 4,456,167	\$ 3,657,017	82%
Security of Persons & Property	9,347,802	8,750,160	94%
Public Health & Welfare	206,424	206,424	100%
Transportation	4,059,871	(2,515,559)	-62%
Community Environment	4,517,023	3,955,092	88%
Leisure Time Activity	3,591,675	1,712,169	48%
Utility Services	504,919	504,919	100%
Interest & Fiscal Charges	928,555	928,555	100%
<b>Total</b>	<b>\$ 27,612,436</b>	<b>\$ 17,203,777</b>	<b>62%</b>

**CITY OF GAHANNA**  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (UNAUDITED)

The graph below compares the program revenues of the City to total expenses further illustrating the City's dependence on general revenues.

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

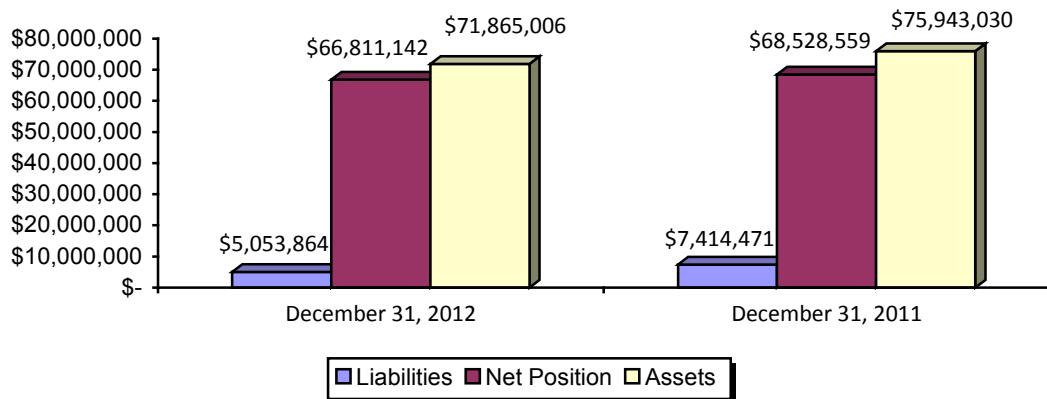


### **Business-type Activities**

Business-type activities include the Water, Sewer and Storm Water Enterprise Funds. These programs have program revenues of \$12,970,668, general revenues and transfers of \$448,040 and expenses of \$15,136,125 for 2012.

The graph below shows the business-type activities assets, liabilities and net position at year-end.

**Net Position in Business – Type Activities**



**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(UNAUDITED)

Liabilities of Business-type Activities decreased \$2,360,607 or 32% from 2011 mainly due to a decrease in intergovernmental payable related to the City's water and sanitary treatment services purchased from the City of Columbus. There has been no change in pricing or service structure rather the decrease is due to the City's timing of paying for the services. Net position and assets decreased as the result of rate setting for sewer services. To mitigate rate increases for sewer services the City is utilizing available net position to defray the operating cost of the service.

**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 Fund Statements 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 \$31,514,225 which is \$179,233 less than the 2011 total of \$31,693,458. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor Governmental Funds.

	Fund Balances <u>12/31/12</u>	Fund Balances <u>12/31/11</u>	Increase (Decrease)
Major funds			
General	\$ 18,054,207	\$ 21,512,554	\$ (3,458,347)
Tax Increment Equivalent	2,955,807	2,703,345	252,462
Capital Improvements	4,774,558	2,400,629	2,373,929
Other Nonmajor Governmental Funds	<u>5,729,653</u>	<u>5,076,930</u>	<u>652,723</u>
Total	<u>\$ 31,514,225</u>	<u>\$ 31,693,458</u>	<u>\$ (179,233)</u>

***General Fund***

The City's general fund balance decreased \$3,458,347 mainly due to a transfer to the Capital Improvement Fund to fund projects identified in the City's Capital Needs Assessment. The following tables assist in illustrating the revenues and expenditures of the General Fund in comparison to 2011.

**CITY OF GAHANNA**  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (UNAUDITED)

	2012 Amount	2011 Amount	Percentage Change
<b><u>General Fund Revenues</u></b>			
Taxes	\$ 17,072,901	\$ 16,362,107	4.34 %
Charges for Services	1,147,643	1,223,967	(6.24) %
Licenses, Permits & Fees	1,071,782	867,537	23.54 %
Fines & Forfeitures	437,583	464,152	(5.72) %
Intergovernmental	1,560,595	2,581,859	(39.56) %
Investment Income	514,112	674,841	(23.82) %
Increase (Decrease) in Fair Value of Investments	(35,400)	178,767	(119.80) %
Other	<u>399,518</u>	<u>515,790</u>	<u>(22.54) %</u>
Total	<u>\$ 22,168,734</u>	<u>\$ 22,869,020</u>	<u>(3.06) %</u>

Tax revenue represents 77% of all General Fund revenue and increased slightly from 2011 to 2012 mainly due to an increase in income tax revenues. The decrease in investment income is due to continued decreases in interest rates for the City's investment portfolio. The fair value of investments decreased substantially in 2012 resulting from fluctuations in the value of investment securities. The decrease in intergovernmental revenues is the result of anticipated decreases in State local government funding which declined by \$419,633 from 2011 to 2012. Grant revenues also declined by \$446,598 in 2012. The increase in license, permits & fees and decrease in other revenue is due to a reclassification of fee based revenue from other revenue in 2011 to license permits & fees revenue in 2012.

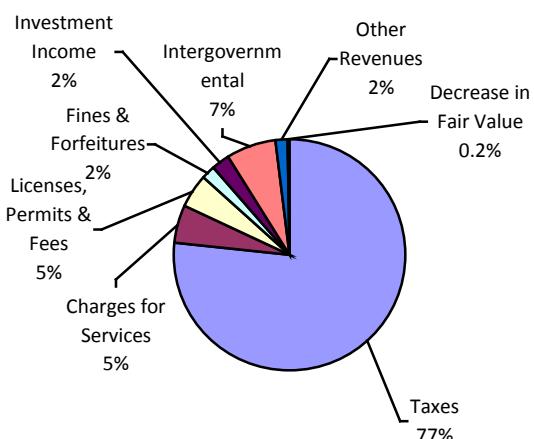
	2012 Amount	2011 Amount	Percentage Change
<b><u>General Fund Expenditures</u></b>			
General Government	\$ 3,381,520	\$ 4,066,412	(16.84) %
Security of Persons & Property	8,036,363	7,618,308	5.49 %
Public Health & Welfare	206,424	215,060	(4.02) %
Transportation	1,514,498	935,505	61.89 %
Community Environment	3,093,373	2,670,552	15.83 %
Leisure Time Activity	2,911,693	2,596,505	12.14 %
Utility Services	491,095	474,867	3.42 %
Capital Outlay	<u>2,523,910</u>	<u>1,002,470</u>	<u>151.77 %</u>
Total	<u>\$ 22,158,876</u>	<u>\$ 19,579,679</u>	<u>13.17 %</u>

General government expenditures decreased mainly as a result of expenditure refunds associated with real estate taxes and RITA (Regional Income Tax Agency) retainer payments. A review of City owned properties led to real estate tax refunds of \$304,553 in 2012. Upon RITA's agency-wide analysis of retainer payments, the City received a \$147,518 refund in 2012. The remaining decreases were due to staffing and contract service reductions in various departments. Community environment increased as a result of an increase in expenses related to economic development tax incentives, all of which are offset by revenue increases. Transportation, leisure time activities and capital outlay all increased as a result of the City implementing a strategic capital improvement and maintenance plan in 2012 after years of deferred funding due to the recession.

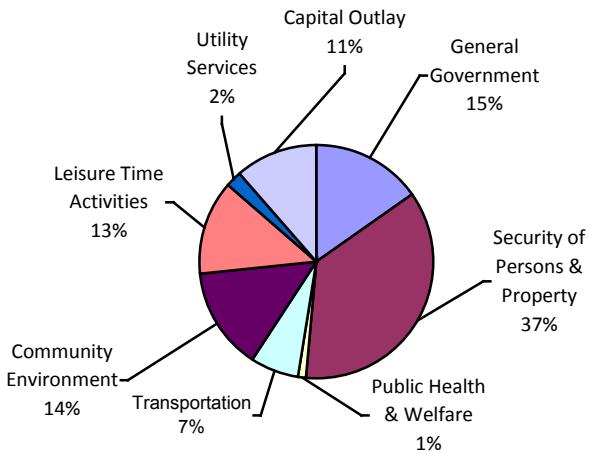
**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

The charts below illustrate the breakdown of revenues and expenditures of the General Fund for 2012.

**General Fund Revenues – Fiscal Year 2012**



**General Fund Expenditures – Fiscal Year 2012**



**Tax Increment Equivalent Fund**

The Tax Increment Equivalent Fund had \$1,928,295 in revenues during 2012, experiencing an increase in payments in lieu of taxes. The majority of TIF Districts had improvements resulting in an increase in payments in lieu of taxes. The Creekside TIF District increased most notably by \$595,292 mainly due to a settlement of back payments owed to the City resulting from the sale of Creekside to a new developer. The expenditures and other financing uses of the Tax Increment Equivalent Fund were \$1,675,833 during 2012. Expenditures in this fund decreased due to a reduction of capital project expenditures. The net increase in fund balance for the Tax Increment Equivalent Fund was \$252,462 or 9%.

**Capital Improvement Fund**

The Capital Improvement Fund had revenues and other financing sources of \$3,695,388 in 2012. As part of the City's capital improvement planning, a significant transfer of \$2,782,680 was made from the General Fund to provide funding for the projects identified in the City's Capital Needs Assessment. In 2012 the City also began receiving a pledge of revenue from MORPC for repayment of the City's SIB Loan issued for construction of Tech Center Drive in 2011. The expenditures of the Capital Improvement Fund totaled \$1,321,459 in 2012. Expenditures in this fund decreased due to the completion of Tech Center Drive in 2011. Additional single and multi-year projects began in 2012, however the costs were lower than in 2011, with expected increases in subsequent years as some of the projects begun in 2012 will be completed in the following years. The net increase in fund balance for the Capital Improvement Fund was \$2,373,929 or 99%.

**Budgeting Highlights – General Fund**

The key components of the City's budgeting process are prescribed by the Ohio Revised Code (ORC) section 5705. The outcome of the budget process is the City's appropriation ordinance which is restricted by the amounts of anticipated revenues and other resources certified by the Budget Commission in accordance with the ORC. As necessary, appropriations are amended throughout the year but must remain within the Budget Commission's certificate of estimated resources. Requests to amend the certificate of estimated resources are submitted once certainty to additional resources is identified by the City.

**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

In the General Fund, actual revenues and other financing sources exceeded budgeted revenues and other financing sources of \$22,351,973 by \$1,933,058. Actual expenditures and other financing uses were \$2,470,492 less than the final budgeted expenditures and other financing uses of \$32,805,110. These variances are the result of the City's conservative budgeting. Budgeted revenues remained the same from the original budget to the final budget and other financing sources increased slightly due to anticipated resources from the sale of capital assets and transfers in from other funds. Budgeted expenditures and other financing uses increased \$6,537,647 from the original budget to the final budget, primarily due to an increase in budgeted capital outlay expenditures as well as an increase in transfers to the Capital Improvement Fund to provide funding for the City's capital infrastructure.

### ***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 Business-type Activities for internal service transactions and utility services provided to Governmental Activities in the amount of \$13,654. On the Government-wide statements the only interfund activity reported is between the Governmental and Business-type Activities.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

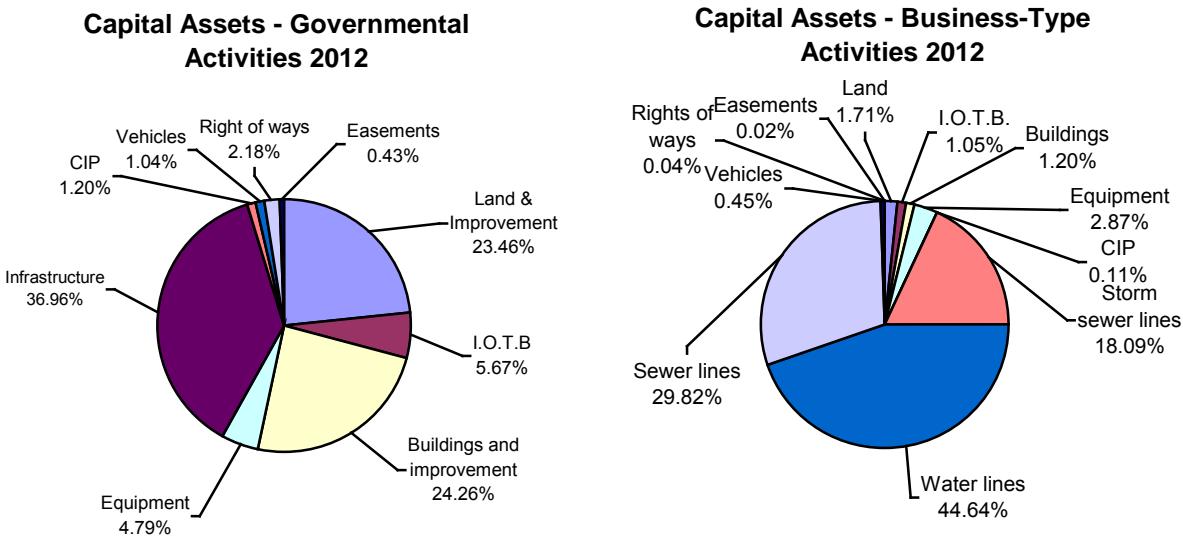
At the end of fiscal year 2012, the City had \$140,334,016 (net of accumulated depreciation) invested in land and land improvements, right of ways, easements, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress (CIP). Of this total, \$88,789,561 was reported in governmental activities and \$51,544,455 was reported in business-type activities. The following table shows fiscal 2012 balances compared to 2011:

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land & Land Improvements	\$ 20,834,424	\$ 20,514,768	\$ 880,400	\$ 299,981	\$ 21,714,824	\$ 20,814,749
Right of ways	1,939,543	1,939,543	22,886	22,886	1,962,429	1,962,429
Easements	384,155	384,155	9,350	9,350	393,505	393,505
Buildings	21,539,994	22,254,111	617,407	639,730	22,157,401	22,893,841
I.O.T.B.	5,038,346	4,618,298	542,787	560,337	5,581,133	5,178,635
Machinery and equipment	4,254,532	4,017,985	1,479,932	1,538,190	5,734,464	5,556,175
Vehicles	922,341	353,486	233,862	269,163	1,156,203	622,649
Storm sewer lines	-	-	9,323,883	9,375,225	9,323,883	9,375,225
Water lines	-	-	23,009,442	23,480,680	23,009,442	23,480,680
Sewer lines	-	-	15,368,802	15,495,313	15,368,802	15,495,313
Infrastructure	32,814,780	33,269,992	-	-	32,814,780	33,269,992
Construction in progress	1,061,446	2,170,359	55,704	851,149	1,117,150	3,021,508
Totals	<u>\$ 88,789,561</u>	<u>\$ 89,522,697</u>	<u>\$ 51,544,455</u>	<u>\$ 52,542,004</u>	<u>\$ 140,334,016</u>	<u>\$ 142,064,701</u>

**CITY OF GAHANNA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(UNAUDITED)**

The following graphs show the breakdown of Governmental and Business-type capital assets by category for 2012.



The City's largest capital asset category is infrastructure which includes roads, bridges, culverts, sidewalks, street lighting and curbs for Governmental Activities and Sewer, Water and Storm Water Lines for Business-type Activities which play a vital role in the income producing ability of the Business-type activities. 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 37% and 93% of the City's total Governmental and Business-type capital assets respectively. See Note 8 for detail on the City's capital assets.

#### ***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	Governmental Activities	
	<u>2012</u>	<u>2011</u>
Compensated Absences	\$ 2,203,468	\$ 2,152,055
General Obligation Bonds	18,346,606	19,127,815
OPWC Loans	2,061,767	1,647,610
Lease Purchase Agreement	521,428	625,714
SIB Loan	<u>4,404,269</u>	<u>4,905,070</u>
Total Long-term Obligations	<u>\$ 27,537,538</u>	<u>\$28,458,264</u>

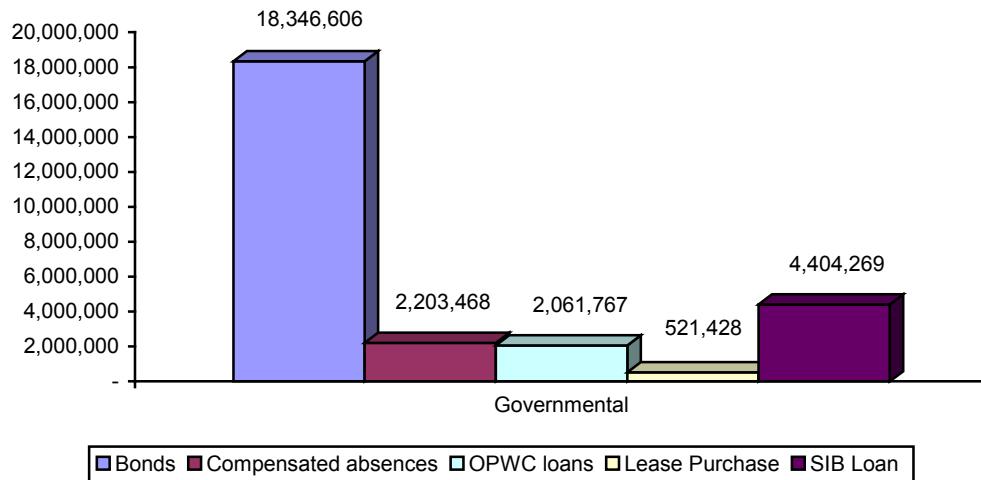
  

	Business-type Activities	
	<u>2012</u>	<u>2011</u>
General Obligation Bonds	\$ 2,463,953	\$ 2,579,981
OPWC Loans	12,349	24,277
Compensated Absences	<u>56,085</u>	<u>58,236</u>
Total Long-term Obligations	<u>\$ 2,532,387</u>	<u>\$ 2,662,494</u>

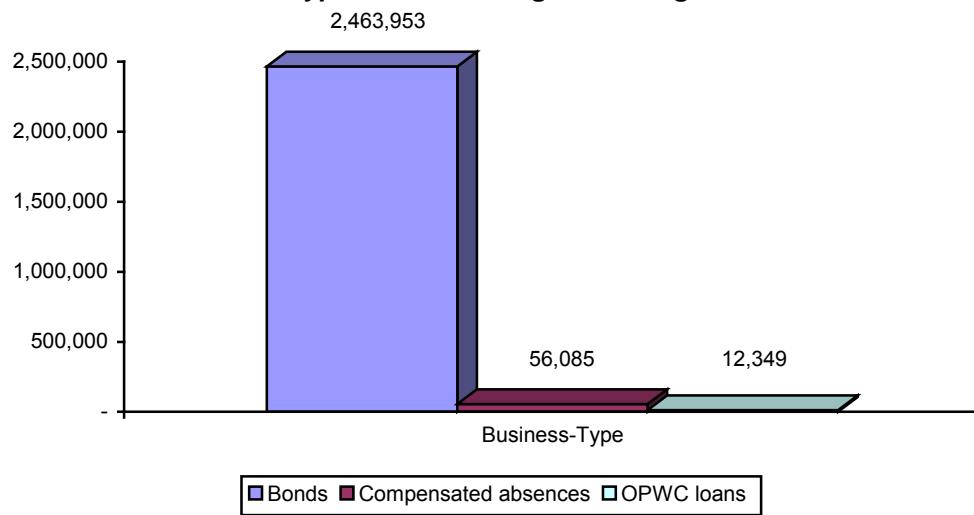
**CITY OF GAHANNA**  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (UNAUDITED)

A comparison of the 2012 long-term obligations by category is depicted in the charts below.

**Governmental Activities Long-term Obligations 2012**



**Business-type Activities Long-term Obligations 2012**



See Note 13 for detail on the City's long-term obligations.

**CITY OF GAHANNA**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(UNAUDITED)

**Economic Conditions and Outlook**

State reductions to multiple revenue sources along with economic volatility in tax collections and investment earnings due to the Great Recession posed challenges to the City in 2012 and will continue to do so into the future. Declining revenues and anticipated increases in the cost to maintain the City's aging assets and infrastructure will make it critical for the City to manage its available resources conservatively and maintain accountability and transparency to the public.

In response to these challenges, the administration and elected leaders of the City committed to an unprecedented level of planning, transparency and accountability in 2012. This included strategic planning sessions, a review and reaffirmation of the City's Mission and Vision statements and identifying the critical success factors that must be achieved to ensure the Mission and Vision are accomplished. Citizen input on priorities and desired city services was sought in the City's biennial citizen survey in 2012, and the City began participating in the ICMA Center for Comparative Performance Measurement in order to begin to determine how the City's performance compares to peer communities. The administration completed a comprehensive and prioritized five-year capital needs assessment as well as a robust five-year economic forecast in addition to updating many of its financial reports to be more user friendly and informative.

Based on the results of these processes, the City concluded that anticipated revenues will not be sufficient to sustain needed capital improvements and current operations beginning in 2013. The average annual deficit is projected to be approximately \$8,000,000 per year. The main cause of the projected deficit is reductions to multiple revenue streams outside of the City's control, such as, declining investment income, State reductions to local government funding, and elimination of the inheritance tax and local personal property tax.

To close the funding gap for 2012 and 2013, the administration has elected to spend from the City's healthy general fund balance without impacting the mandatory emergency reserve which is set at 25% of planned revenues. As of December 31, 2012 the mandatory reserve was \$5,611,302 and the City had \$7,013,552 in excess unencumbered fund balance compared to an excess unencumbered fund balance of \$9,681,747 as of December 31, 2011. Approximately \$2.6 million of excess fund balance was used in 2012 and it is anticipated an additional \$4.4 million will be used throughout 2013.

In response to the long-term needs of the City, those beyond 2013, the administration recommended to Council a tax reform proposal. The proposed tax reform would raise the income tax rate from 1.5% to 2.5% and change the tax credit rate from 83.3% to 100% credit for paying to another municipality. Council voted to place the reform proposal on the May 7, 2013 ballot.

The City will continue with the processes developed in 2012 to identify services and capital improvements that may need to be reduced or eliminated should the income tax reform fail. Should the income tax reform pass, these same processes will be used to provide assurance public funds are being utilized in accordance with the Mission and Vision of the City.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, 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. Jennifer Teal, Director of Finance, City of Gahanna, 200 South Hamilton Road, Gahanna, Ohio 43230.

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**CITY OF GAHANNA**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

	Governmental Activities	Business-type Activities	<u>Total</u>
<b>Assets</b>			
Equity in Pooled Cash & Investments	\$30,729,413	\$17,230,143	\$47,959,556
Cash with Fiscal Agents	397,581	-	397,581
Receivables			
Income Taxes	4,333,085	-	4,333,085
Property Taxes	2,014,085	-	2,014,085
Other Local Taxes	170,724	-	170,724
Revenue In Lieu of Taxes	1,085,592	-	1,085,592
Accounts	869,789	2,984,345	3,854,134
Accrued Interest	83,112	-	83,112
Capital Leases	18,701	-	18,701
Intergovernmental	6,234,289	-	6,234,289
Prepayments	69,956	7,031	76,987
Materials & Supplies Inventory	214,482	85,378	299,860
Internal Balance	(13,654)	13,654	-
Non-depreciable Capital Assets	24,219,568	968,340	25,187,908
Depreciable Capital Assets, Net	64,569,993	50,576,115	115,146,108
<b>Total Assets</b>	<b>134,996,716</b>	<b>71,865,006</b>	<b>206,861,722</b>
<b>Liabilities</b>			
Accounts Payable	460,812	24,357	485,169
Contracts Payable	381,811	88,835	470,646
Accrued Wages and Benefits	262,746	20,544	283,290
Compensated Absences Payable	33,239	-	33,239
Intergovernmental Payable	129,551	2,378,206	2,507,757
Interest Payable	320,220	9,535	329,755
Long-Term Liabilities			
Due within One Year	3,058,808	175,616	3,234,424
Due in More Than One Year	24,478,730	2,356,771	26,835,501
<b>Total Liabilities</b>	<b>29,125,917</b>	<b>5,053,864</b>	<b>34,179,781</b>
<b>Deferred Inflows of Resources</b>			
Property Taxes Levied for the Subsequent Year	1,920,246	-	1,920,246
Revenue in Lieu of Taxes for the Subsequent Year	1,085,592	-	1,085,592
Unearned Capital Lease Revenue	18,701	-	18,701
<b>Total Deferred Inflows of Resources</b>	<b>3,024,539</b>	<b>-</b>	<b>3,024,539</b>
<b>Net Position</b>			
Net Investment in Capital Assets	63,455,491	49,068,153	112,523,644
Restricted for			
Debt Service	1,210,116	-	1,210,116
Capital Projects	9,242,227	-	9,242,227
General Government	1,303,906	-	1,303,906
Security of Persons & Property	1,341,297	-	1,341,297
Community Environment	3,005,017	-	3,005,017
Transportation	2,052,540	-	2,052,540
Unrestricted	21,235,666	17,742,989	38,978,655
<b>Total Net Position</b>	<b>102,846,260</b>	<b>\$66,811,142</b>	<b>\$169,657,402</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF GAHANNA**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services & Sales	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>							
General Government	\$ 4,456,167	\$ 799,150	\$ -	\$ -	\$ (3,657,017)	\$ -	\$ (3,657,017)
Security of Persons & Property	9,347,802	354,525	243,117	-	(8,750,160)	-	\$ (8,750,160)
Public Health & Welfare	206,424	-	-	-	(206,424)	-	\$ (206,424)
Transportation	4,059,871	39,100	1,856,111	4,680,219	2,515,559	-	\$ 2,515,559
Community Environment	4,517,023	506,381	-	55,550	(3,955,092)	-	\$ (3,955,092)
Leisure Time Activities	3,591,675	1,511,989	-	362,517	(1,717,169)	-	\$ (1,717,169)
Utility Services	504,919	-	-	-	(504,919)	-	\$ (504,919)
Interest & Fiscal Charges	928,555	-	-	-	(928,555)	-	\$ (928,555)
<b>Total Governmental Activities</b>	<b>27,612,436</b>	<b>3,211,145</b>	<b>2,099,228</b>	<b>5,098,286</b>	<b>(17,203,777)</b>	<b>-</b>	<b>(17,203,777)</b>
<b>Business-type Activities</b>							
Water	6,748,836	6,722,456	-	-	-	(26,380)	(26,380)
Sewer	7,424,007	5,261,204	-	-	-	(2,162,803)	(2,162,803)
Storm Water	963,282	987,008	-	-	-	23,726	23,726
<b>Total Business-type Activities</b>	<b>15,136,125</b>	<b>12,970,668</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,165,457)</b>	<b>(2,165,457)</b>
<b>Total Primary Government</b>	<b>\$ 42,748,561</b>	<b>\$ 16,181,813</b>	<b>\$ 2,099,228</b>	<b>\$ 5,098,286</b>	<b>\$ (17,203,777)</b>	<b>\$ (2,165,457)</b>	<b>\$ (19,369,234)</b>
<b>General Revenues</b>							
Income Taxes Levied For General Purposes					16,531,571	-	16,531,571
Property Taxes Levied For General Purposes					1,444,786	-	1,444,786
Debt Service					240,742	-	240,742
Police					247,503	-	247,503
Revenue in Lieu of Taxes					1,908,942	-	1,908,942
Other Local Taxes					435,863	-	435,863
Grants & Entitlements not Restricted to Specific Programs					741,106	-	741,106
Investment Earnings					492,559	-	492,559
Decrease in Fair Market Value of Investments					(35,400)	-	(35,400)
Miscellaneous					1,004,594	203,403	1,207,997
Transfers					(244,637)	244,637	-
<b>Total General Revenues &amp; Transfers</b>					<b>22,767,629</b>	<b>448,040</b>	<b>23,215,669</b>
<b>Change in Net Position</b>							
Net Position Beginning of Year (Restated)					5,563,852	(1,717,417)	3,846,435
Net Position End of Year					<b>97,282,408</b>	<b>68,528,559</b>	<b>165,810,967</b>
					<b>102,846,260</b>	<b>\$66,811,142</b>	<b>\$169,657,402</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF GAHANNA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2012**

	<u>General</u>	<u>Tax Increment Equivalent</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash & Investments	\$ 17,771,663	\$ 2,960,585	\$ 4,625,418	\$ 5,254,216	\$ 30,611,882
Cash with Fiscal Agents	-	-	-	397,581	397,581
Receivables:					
Income Taxes	4,333,085	-	-	-	4,333,085
Property Taxes	1,518,138	-	-	495,947	2,014,085
Other Local Taxes	25,159	-	-	-	25,159
Revenue in Lieu of Taxes	-	1,085,592	-	-	1,085,592
Accounts	1,015,354	-	-	-	1,015,354
Accrued Interest	83,112	-	-	-	83,112
Capital Leases	-	-	-	18,701	18,701
Intergovernmental	822,672	11,605	4,616,809	783,203	6,234,289
Prepayments	66,172	-	-	3,784	69,956
Materials & Supplies Inventory	214,482	-	-	-	214,482
<b>Total Assets</b>	<b>25,849,837</b>	<b>4,057,782</b>	<b>9,242,227</b>	<b>6,953,432</b>	<b>46,103,278</b>
<b>Liabilities</b>					
Accounts Payable	457,100	-	-	3,712	460,812
Contracts Payable	368,154	4,778	-	8,879	381,811
Accrued Wages & Benefits	246,722	-	-	16,024	262,746
Compensated Absences	33,239	-	-	-	33,239
Intergovernmental Payable	299,858	-	-	2,476	302,334
Due to Other Funds	11,674	-	-	400	12,074
Deferred Revenue	-	-	-	-	-
Unearned Revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>1,416,747</b>	<b>4,778</b>	<b>-</b>	<b>31,491</b>	<b>1,453,016</b>
<b>Deferred Inflows of Resources</b>					
Property Taxes Levied for Subsequent Year	1,447,759	-	-	472,487	1,920,246
Revenue in Lieu of Taxes for the Subsequent Year	-	1,085,592	-	-	1,085,592
Unearned Capital Lease Revenue	-	-	-	18,701	18,701
Unavailable Property Tax Revenue	70,379	-	-	23,460	93,839
Unavailable Income Tax Revenue	3,098,225	-	-	-	3,098,225
Unavailable Intergovernmental Revenue	710,253	11,605	4,467,669	677,640	5,867,167
Unavailable Interest Revenue	58,050	-	-	-	58,050
Unavailable License, Permits & Fees	145,565	-	-	-	145,565
Unavailable Other Revenue	848,652	-	-	-	848,652
<b>Total Deferred Inflow of Resources</b>	<b>6,378,883</b>	<b>1,097,197</b>	<b>4,467,669</b>	<b>1,192,288</b>	<b>13,136,037</b>
<b>Fund Balances</b>					
Nonspendable	311,003	-	-	3,784	314,787
Restricted	-	2,955,807	4,774,558	5,202,975	12,933,340
Committed	1,190,692	-	-	522,648	1,713,340
Assigned	6,156,546	-	-	246	6,156,792
Unassigned	10,395,966	-	-	-	10,395,966
<b>Total Fund Balances</b>	<b>18,054,207</b>	<b>2,955,807</b>	<b>4,774,558</b>	<b>5,729,653</b>	<b>31,514,225</b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 25,849,837</b>	<b>\$ 4,057,782</b>	<b>\$ 9,242,227</b>	<b>\$ 6,953,432</b>	<b>\$ 46,103,278</b>

The notes to the basic financial statements are an integral part of this statement.

CITY OF GAHANNA  
 RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
 NET POSITION OF GOVERNMENTAL ACTIVITIES  
 DECEMBER 31, 2012

<b>Total Governmental Fund Balances</b>	<b>\$31,514,225</b>
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	88,789,561
Other assets are not available to pay for current period expenditures and therefore are deferred in the funds.	10,111,498
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of position.	98,065
Long-Term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.	
Compensated Absences	(2,203,468)
General Obligation Debt	(18,346,606)
Accrued Interest	(129,551)
Loans Payable	(6,466,036)
Capital Lease Obligations	(521,428)
	<hr/> <u>(27,667,089)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$102,846,260</u></b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF GAHANNA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

	General	Tax Increment Equivalent	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Income Taxes	\$ 15,176,200	\$ -	\$ -	\$ -	\$ 15,176,200
Property Taxes	1,460,838	-	-	492,985	1,953,823
Other Local Taxes	435,863	-	-	-	435,863
Revenue in Lieu of Taxes	-	1,908,942	-	-	1,908,942
Charges for Services	1,147,643	-	-	-	1,147,643
Licenses, Permits & Fees	1,071,782	-	-	43,100	1,114,882
Fines & Forfeitures	437,583	-	-	336,034	773,617
Intergovernmental	1,560,595	19,353	796,530	2,060,995	4,437,473
Investment Income	514,112	-	-	6,121	520,233
Rental Income	45,188	-	-	22,727	67,915
Contributions & Donations	2,615	-	-	-	2,615
Decrease in Fair Value of Investments	(35,400)	-	-	-	(35,400)
Other	351,715	-	-	222	351,937
<b>Total Revenues</b>	<b>22,168,734</b>	<b>1,928,295</b>	<b>796,530</b>	<b>2,962,184</b>	<b>27,855,743</b>
<b>Expenditures</b>					
<b>Current</b>					
General Government	3,381,520	89	3,575	17,049	3,402,233
Security of Persons & Property	8,036,363	-	-	1,029,566	9,065,929
Public Health & Welfare	206,424	-	-	-	206,424
Transportation	1,514,498	-	116,178	963,949	2,594,625
Community Environment	3,093,373	1,074,139	-	-	4,167,512
Leisure Time Activity	2,911,693	-	8,663	-	2,920,356
Utility Services	491,095	-	-	13,824	504,919
Capital Outlay	2,523,910	171,319	545,653	131,600	3,372,482
Debt Service					
Principal Retirement	-	104,286	616,979	941,387	1,662,652
Interest & Fiscal Charges	-	-	30,411	864,765	895,176
<b>Total Expenditures</b>	<b>22,158,876</b>	<b>1,349,833</b>	<b>1,321,459</b>	<b>3,962,140</b>	<b>28,792,308</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>9,858</b>	<b>578,462</b>	<b>(524,929)</b>	<b>(999,956)</b>	<b>(936,565)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers In	32,619	-	2,782,680	2,168,507	4,983,806
Transfers Out	(4,141,978)	(326,000)	-	(515,828)	(4,983,806)
Proceeds from sale of capital assets	42,711	-	-	-	42,711
Issuance of Loans	598,443	-	116,178	-	714,621
<b>Total Other Financing Sources (Uses)</b>	<b>(3,468,205)</b>	<b>(326,000)</b>	<b>2,898,858</b>	<b>1,652,679</b>	<b>757,332</b>
<b>Net Change in Fund Balances</b>	<b>(3,458,347)</b>	<b>252,462</b>	<b>2,373,929</b>	<b>652,723</b>	<b>(179,233)</b>
<b>Fund Balances, January 1</b>	<b>21,512,554</b>	<b>2,703,345</b>	<b>2,400,629</b>	<b>5,076,930</b>	<b>31,693,458</b>
<b>Fund Balances, December 31</b>	<b>\$ 18,054,207</b>	<b>\$ 2,955,807</b>	<b>\$ 4,774,558</b>	<b>\$ 5,729,653</b>	<b>\$ 31,514,225</b>

The notes to the basic financial statements are an integral part of this statement.

CITY OF GAHANNA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

**Net Change in Fund Balances - Total Governmental Funds** \$ (179,233)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	3,372,482
Depreciation	(3,671,527)

The sale, trade in, transfer or donation of capital assets is to increase/(decrease) net position as follows:

Sale or Trade-in of Capital Assets	(189,454)
Transfer of Capital Assets	(244,637)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Income Taxes	1,355,371
Property Taxes	(20,792)
License Permits & Fees	80,975
Intergovernmental	3,501,147
Investment Income	(27,674)
Other Revenue	676,155

Repayment of bond and loan principal and leases payable are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not result in an expense in the statement of activities.

1,662,652

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities.

(714,621)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

(33,379)

An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

47,800

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.

Compensated Absences	(51,413)
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**Change in Net Position of Governmental Activities**

**\$ 5,563,852**

The notes to the basic financial statements are an integral part of this statement.

**CITY OF GAHANNA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts			Variance with Final Buget Positive/(Negative)
	Original	Final	Actual	
Revenues				
Income Tax	14,546,000	14,546,000	14,913,324	367,324
Property Taxes	1,454,316	1,454,316	1,460,838	6,522
Other Local Taxes	397,000	397,000	445,301	48,301
Charges for Services	1,341,932	1,341,932	1,641,834	299,902
Licenses Permits & Fees	891,500	891,500	1,145,633	254,133
Fines & Forfeitures	460,100	460,100	442,302	(17,798)
Intergovernmental	1,561,130	1,561,130	2,454,582	893,452
Investment Income	675,000	675,000	530,197	(144,803)
Rent	38,800	38,800	45,188	6,388
Contributions & Donations	5,200	5,200	2,615	(2,585)
Other	150,995	150,995	321,317	170,322
Total Revenues	<u>21,521,973</u>	<u>21,521,973</u>	<u>23,403,131</u>	<u>1,881,158</u>
Expenditures				
General Government	5,152,158	5,313,754	4,416,037	897,717
Security of Persons & Property	8,394,417	8,539,590	8,214,928	324,662
Public Health & Welfare	217,100	217,100	209,777	7,323
Transportation	1,407,907	1,411,673	1,145,902	265,771
Community Environment	3,768,797	3,974,562	3,350,484	624,078
Leisure Time Activities	2,991,367	3,276,807	3,098,387	178,420
Utility Services	853,497	825,827	740,302	85,525
Capital Outlay	2,100,189	5,081,086	5,016,823	64,263
Total Expenditures	<u>24,885,432</u>	<u>28,640,399</u>	<u>26,192,640</u>	<u>2,447,759</u>
Excess of Expenditures over Revenues	<u>(3,363,459)</u>	<u>(7,118,426)</u>	<u>(2,789,509)</u>	<u>4,328,917</u>
Other Financing Sources (uses)				
Sale of Assets	20,000	20,000	73,362	53,362
Transfer In	810,000	810,000	808,538	(1,462)
Transfer Out	(1,382,031)	(4,164,711)	(4,141,978)	22,733
Total Other Financing Sources (uses)	<u>(552,031)</u>	<u>(3,334,711)</u>	<u>(3,260,078)</u>	<u>74,633</u>
Net Change in Fund Balance	(3,915,490)	(10,453,137)	(6,049,587)	4,403,550
Fund balance at beginning of year	15,268,540	15,268,540	15,268,540	-
Prior Year Encumbrance Appropriated	3,406,061	3,406,061	3,406,061	-
Fund balance at end of year	<u>14,759,111</u>	<u>8,221,464</u>	<u>12,625,014</u>	<u>4,403,550</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF GAHANNA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**TAX INCREMENT EQUIVALENT FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts			Variance with Final Buget Positive/(Negative)
	Original	Final	Actual	
Revenues				
Revenue in Lieu of Taxes	1,089,000	1,089,000	1,908,942	819,942
Intergovernmental	4,000	4,000	19,353	15,353
Total Revenues	<u>1,093,000</u>	<u>1,093,000</u>	<u>1,928,295</u>	<u>835,295</u>
Expenditures				
General Government	-	90	89	1
Community Environment	864,297	1,385,577	1,320,992	64,585
Utility Services	5,239	5,239	5,239	-
Capital Outlay	<u>205,174</u>	<u>305,700</u>	<u>288,929</u>	<u>16,771</u>
Total Expenditures	<u>1,074,710</u>	<u>1,696,606</u>	<u>1,615,249</u>	<u>81,357</u>
Excess of Expenditures over Revenues	<u>18,290</u>	<u>(603,606)</u>	<u>313,046</u>	<u>916,652</u>
Other Financing Sources (uses)				
Transfer Out	(293,000)	(326,000)	(326,000)	-
Total Other Financing Sources (uses)	<u>(293,000)</u>	<u>(326,000)</u>	<u>(326,000)</u>	<u>-</u>
Net Change in Fund Balance	(274,710)	(929,606)	(12,954)	916,652
Fund balance at beginning of year	2,590,218	2,590,218	2,590,218	-
Prior Year Encumbrance Appropriated	359,982	359,982	359,982	-
Fund balance at end of year	<u>2,675,490</u>	<u>2,020,594</u>	<u>2,937,246</u>	<u>916,652</u>

The notes to the basic financial statements are an integral part of this statement

**CITY OF GAHANNA**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water	Total	
<b>Assets</b>					
<b>Current Assets</b>					
Equity in Pooled Cash & Investments	\$ 5,155,814	\$ 10,253,414	\$ 1,820,915	\$ 17,230,143	117,531
Accounts Receivable	1,476,764	1,271,086	236,495	2,984,345	-
Due From Other Funds	2,403	2,589	730	5,722	6,866
Prepayments	2,676	2,205	2,150	7,031	-
Materials & Supplies Inventory	42,689	42,689	-	85,378	-
<b>Total Current Assets</b>	<u>6,680,346</u>	<u>11,571,983</u>	<u>2,060,290</u>	<u>20,312,619</u>	<u>124,397</u>
<b>Non-current Assets</b>					
<b>Capital Assets</b>					
Non-depreciable Capital Assets	39,210	11,726	917,404	968,340	-
Depreciable Capital Assets, Net	24,675,599	15,963,554	9,936,962	50,576,115	-
<b>Total non-current assets</b>	<u>24,714,809</u>	<u>15,975,280</u>	<u>10,854,366</u>	<u>51,544,455</u>	<u>-</u>
<b>Total Assets</b>	<u>31,395,155</u>	<u>27,547,263</u>	<u>12,914,656</u>	<u>71,857,074</u>	<u>124,397</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts Payable	11,895	6,503	5,959	24,357	-
Contracts Payable	9,295	45,081	34,459	88,835	-
Accrued Wages & Benefits	7,832	7,847	4,865	20,544	-
Intergovernmental Payable	1,089,571	1,287,884	751	2,378,206	17,886
Due to Other Funds	196	196	122	514	-
Accrued Interest Payable	1,120	1,120	7,295	9,535	-
Current Portion of Compensated Absences Payable	17,530	17,530	8,014	43,074	-
Current Portion of General Obligation Bonds Payable	13,656	13,656	92,881	120,193	-
Current Portion of OPWC Loans Payable	-	12,349	-	12,349	-
<b>Total Current Liabilities</b>	<u>1,151,095</u>	<u>1,392,166</u>	<u>154,346</u>	<u>2,697,607</u>	<u>17,886</u>
<b>Long-term Liabilities</b>					
Compensated Absences Payable	4,464	4,464	4,083	13,011	-
General Obligation Bonds Payable	276,419	276,419	1,790,922	2,343,760	-
OPWC Loans Payable	-	-	-	-	-
<b>Total Long-term Liabilities</b>	<u>280,883</u>	<u>280,883</u>	<u>1,795,005</u>	<u>2,356,771</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,431,978</u>	<u>1,673,049</u>	<u>1,949,351</u>	<u>5,054,378</u>	<u>17,886</u>
<b>Net Position</b>					
<b>Net Investment in Capital Assets</b>					
Net Investment in Capital Assets	24,424,734	15,672,856	8,970,563	49,068,153	-
Unrestricted	5,538,443	10,201,358	1,994,742	17,734,543	106,511
<b>Total Net Position</b>	<u>29,963,177</u>	<u>25,874,214</u>	<u>10,965,305</u>	<u>66,802,696</u>	<u>106,511</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				8,446	
<b>Net Position of Business type Activities</b>				<u>66,811,142</u>	

The notes to the basic financial statements are an integral part of this statement

**CITY OF GAHANNA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water	Total	
Operating Revenues					
Charges for Services	\$ 6,722,456	\$ 5,261,204	\$ 987,008	\$ 12,970,668	\$ 181,013
Other	127,841	65,184	10,378	203,403	-
Total Operating Revenues	<u>6,850,297</u>	<u>5,326,388</u>	<u>997,386</u>	<u>13,174,071</u>	<u>181,013</u>
Operating Expenses					
Personal Services	448,534	449,011	273,626	1,171,171	-
Contract Services	5,279,901	6,224,812	218,114	11,722,827	102,682
Materials & Supplies	61,396	2,638	1,907	65,941	-
Claims Expense	-	-	-	-	26,754
Depreciation	747,749	492,552	255,779	1,496,080	-
Other	199,167	242,162	126,217	567,546	-
Total Operating Expenses	<u>6,736,747</u>	<u>7,411,175</u>	<u>875,643</u>	<u>15,023,565</u>	<u>129,436</u>
Operating Income/(Loss)	<u>113,550</u>	<u>(2,084,787)</u>	<u>121,743</u>	<u>(1,849,494)</u>	<u>51,577</u>
Nonoperating Revenues/(Expenses)					
Interest & Fiscal Charges	(13,531)	(14,277)	(88,529)	(116,337)	-
Investment Earnings	-	-	-	-	-
Contributed Capital	155,006	-	89,631	244,637	-
Total Nonoperating Revenues/(Expenses)	<u>141,475</u>	<u>(14,277)</u>	<u>1,102</u>	<u>128,300</u>	<u>-</u>
Change in Net Position	<u>255,025</u>	<u>(2,099,064)</u>	<u>122,845</u>	<u>(1,721,194)</u>	<u>51,577</u>
Net Position, January 1 (Restated)	<u>29,708,152</u>	<u>27,973,278</u>	<u>10,842,460</u>	<u>68,523,890</u>	<u>54,934</u>
Net Position, December 31	<u>\$ 29,963,177</u>	<u>\$ 25,874,214</u>	<u>\$ 10,965,305</u>		<u>\$ 106,511</u>
Adjustment to reflect the consolidation of the internal service funds activities related to enterprise funds				<u>3,777</u>	
Change in Net Position Business-type Activities				<u>(1,717,417)</u>	

The notes to the basic financial statements are an integral part of this statement

**CITY OF GAHANNA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Water	Sewer	Storm Water	Total	
Cash flows from operating activities					
Cash Received From Customers	6,643,998	5,296,140	987,085	12,927,223	174,147
Other Operating Cash Receipts	106,649	56,244	8,894	171,787	-
Cash Payments for Personal Services	(449,646)	(450,320)	(273,771)	(1,173,737)	-
Cash Payments for Contractual Services	(6,163,128)	(7,182,155)	(203,158)	(13,548,441)	(143,137)
Cash Payments for Materials & Supplies	(75,913)	(24,308)	(2,015)	(102,236)	(26,754)
Cash Payments for Claims	-	-	-	-	-
Cash Payments for Other Operating Expenses	(209,274)	(186,828)	(109,324)	(505,426)	-
Net Cash Provided/(Used) by Operating Activities	(147,314)	(2,491,227)	407,711	(2,230,830)	4,256
Cash Flows From Capital and Related Financing Activities					
Cash Payments for the Acquisition of Capital Assets	(148,980)	(211,624)	(366,982)	(727,586)	-
Principal Payments on OPWC Loans	-	(11,928)	-	(11,928)	-
Interest Payments on OPWC Loans	-	(746)	-	(746)	-
Principal Payments on Bonds	(12,802)	(12,802)	(87,295)	(112,899)	-
Interest Payments on Bonds	(13,980)	(13,980)	(91,151)	(119,111)	-
Net Cash Provided/(Used) by Capital & Related Financing Activities	(175,762)	(251,080)	(545,428)	(972,270)	-
Net Increase/(Decrease) in Cash & Cash Equivalents	(323,076)	(2,742,307)	(137,717)	(3,203,100)	4,256
Cash & Cash Equivalents January 1, 2012	5,478,890	12,995,721	1,958,632	20,433,243	113,275
Cash & Cash Equivalents December 31, 2012	<u>5,155,814</u>	<u>10,253,414</u>	<u>1,820,915</u>	<u>17,230,143</u>	<u>117,531</u>
Reconciliation of Operating Income/(Loss) to Net Cash Provided by Operating Activities					
Operating Income/(Loss)	113,550	(2,084,787)	121,743	(1,849,494)	51,577
Adjustments					
Depreciation	747,749	492,552	255,779	1,496,080	-
Change in assets and liabilities					
(Increase)/Decrease in Materials & Supplies Inventory	(20,343)	(20,343)	-	(40,686)	-
(Increase)/Decrease in Accounts Receivable	(97,247)	28,585	(677)	(69,339)	-
(Increase)/Decrease in Due from Other Funds	(2,403)	(2,589)	(730)	(5,722)	(6,866)
(Increase)/Decrease in Prepayments	(1,335)	(1,118)	(1,162)	(3,615)	-
Increase/(Decrease) in Accounts Payable	26,847	314,415	3,123	344,385	-
Increase/(Decrease) in Contracts Payable	(1,477)	35,163	29,740	63,426	-
Increase/(Decrease) in Accrued Wages & Benefits	(406)	(401)	(115)	(922)	-
Increase/(Decrease) in Due to Other Governments	(911,582)	(1,251,778)	54	(2,163,306)	(40,455)
Increase/(Decrease) in Due to Other Funds	196	196	122	514	-
Increase/(Decrease) in Compensated Absences Payable	(863)	(1,122)	(166)	(2,151)	-
Net cash provided/(used) by operating activities	<u>(147,314)</u>	<u>(2,491,227)</u>	<u>407,711</u>	<u>(2,230,830)</u>	<u>4,256</u>

Non-cash transactions

At December 31, 2012 and 2011, the Water fund purchased \$107,803 and \$15,958, respectively, in capital assets on account  
At December 31, 2012 and 2011, the Sewer fund purchased/(disposed of) (\$151,281) and \$48,451, respectively, in capital assets on account  
At December 31, 2012 and 2011, the Storm Water fund purchased \$297,372 and \$69,610, respectively, in capital assets on account

The notes to the basic financial statements are an integral part of this statement

CITY OF GAHANNA  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
DECEMBER 31, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ 910,896
Cash in segregated accounts	54,066
Accounts Receivable	483,681
Total assets	<u>\$ 1,448,643</u>
Liabilities:	
Accounts payable	163,122
Due to other governments	65,632
Deposits held and due to others	1,219,889
Total Liabilities	<u>\$ 1,448,643</u>

The notes to the basic financial statements are an integral part of this statement

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **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, was completely renumbered by the Clerk of Council in January, 1992 and was amended as part of the Charter review process in 2011.

#### **Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61 “The Financial Reporting Entity: Omnibus”. 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 from the City of Columbus. 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.

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

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 nine members consisting of various cities, villages and townships. The members originally entered into an irrevocable agreement to remain members of the Pool for a minimum of three years. This agreement was renewed for an additional three years on January 1, 2004, 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, a Treasurer 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 17. The City also participates in a joint operation with the Gahanna Jefferson Public School District. These organizations jointly operate a maintenance facility. See Note 18.

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 more significant of the City’s accounting policies are described below.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **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 Position, Statement of Activities and Fund Financial Statements which provide a more detailed level of financial information.

###### *Government-wide Financial Statements*

The Statement of Net Position 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 Position 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 plus Deferred Outflows of Resources and Liabilities plus Deferred Inflows of Resources is reported as Fund Balance. The following are the City's major Governmental Funds:

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The General Fund Balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Tax Increment Equivalent Fund – This fund accounts for annual service payments in lieu of taxes related to Tax Increment Financing (TIF) projects within the City. The payments are distributed to the City by the County Treasurer. The payments are restricted for infrastructure in the City and other activities set forth in the individual TIF agreements.

Capital Improvement Fund – This fund accounts for resources and expenditures restricted for acquiring, purchasing, improving and/or constructing permanent improvements within the City.

Other Governmental Funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets; (b) specific revenue sources that are restricted, committed or assigned to an expenditure for specific purposes other than debt service or capital projects; and (c) financial resources that are restricted, committed or assigned to expenditures for principal and interest.

#### *Proprietary Funds*

Proprietary Funds focus on the determination of operating income, changes in net position, and cash flows. The City's Proprietary Funds are Enterprise Funds and the Internal Service Fund.

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 including capital maintenance and improvements.

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

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.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency or other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The only Internal Service Fund of the City accounts for interfund charges and claims payments applicable to the City's self-insurance program for workers' compensation.

#### *Fiduciary Funds*

Fiduciary Fund reporting focuses on net position and changes in net position. 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 six Agency Funds which are used to account for money held for other governments, compliance with building codes, senior center programs, veterans' memorial, refuse collection and the distribution of mayor's court fines.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

#### **C. Measurement Focus**

##### *Government-wide Financial Statements*

The Government-wide Financial Statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

##### *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, deferred outflows of resources, current liabilities and deferred inflows or resources 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 reconciliations 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, all deferred outflows of resources, all liabilities and all deferred inflows of resources associated with the operation of these funds are included on the Statement of Fund Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total Net Position. 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 inflows and outflows or resources, 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, includes 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 6). Revenue from grants, entitlements

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

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.

#### *Deferred Inflows and Outflows of Resources*

Deferred inflows and outflows of resources are new elements to the financial statements defined by GASB Concepts Statement No. 4 and GASB Statements No. 63 and 65 requiring a reclassification of items previously reported as assets and liabilities as deferred outflows or inflows of resources (See Note 24). A deferred outflow of resources represents a consumption of net position that applies to future periods and will not be recognized as an expense/expenditure until then. The City currently does not have any transactions which meets the definition of a deferred outflow of resources.

A deferred inflow of resources represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. Property taxes and revenue in lieu of taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance year 2013 operations, and lease revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as a deferred inflow of resources on the Governmental-wide Statement of Net Position and Governmental Funds Balance Sheet. In addition, the Governmental Funds Balance Sheet also includes receivables not collected within the available period as deferred inflows of resources, such as, income taxes, delinquent property taxes, grants and entitlements and other accounts receivable.

#### *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 Ordinance, 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 City. 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 Ordinance 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 Ordinance intended to cover the entire year, including amounts

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year, including all supplemental appropriations.

#### **F. Cash And Cash Equivalents**

To improve cash management, cash received by the City is pooled. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity in Pooled Cash & 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 Fiduciary Statement of Assets and Liabilities – Agency Funds as "Cash in Segregated Accounts".

During the year, investments were limited to government and government sponsored entity bonds such as Federal Farm Credit Bank (FFCB) bonds, Federal Home Loan Bank (FHLB) bonds and Federal Home Loan Mortgage Credit (FHLMC) bonds. The City also invested in mortgage and asset backed securities, such as, Federal National Mortgage Association (FNMA) bonds, Federal Home Loan Mortgage Credit (FHLMC) bonds and Government National Mortgage Association (GNMA) bonds as well as U.S. government money market mutual funds, negotiable certificates of deposit, STAR Ohio and STAR Plus. 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 shares price.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2012. 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, 2012.

The City has also deposited funds in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of FDIC-insured banks via a single account. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits. As of December 31, 2012 the Net Annual Percentage Yield (APY) for STAR Plus was .25%.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the general fund during 2012 amounted to \$514,112.

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. On the Fund Financial Statements, reported materials and supplies inventory is equally offset by a nonspendable fund balance which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

##### **H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2012, 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. At year end, because payments are not available to finance future Governmental Fund expenditures, a nonspendable fund balance is recorded by an amount equal to the carrying value of the asset on the Fund Financial Statements.

##### **I. Capital Assets**

General capital assets are those 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 Position, 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 Position and in the respective funds.

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

All reported capital assets, except for land and land improvements, 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

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

##### **J. Compensated Absences**

Vacation benefits and compensatory time are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time and compensatory time when earned for all employees after six months of service. Compensatory time is accumulated by employees at the applicable overtime rate for each hour of overtime worked. City employees may carry over vacation and compensatory time in accordance with employment contracts or ordinances.

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.

##### **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 on the Governmental Fund Financial Statements when due.

##### **L. Unamortized Bond Premiums**

Premiums 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.

##### **M. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the Governmental Funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or are legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In Governmental Funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other Governmental Funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

#### **N. Budget Stabilization/General Fund Balance Reserve**

The General Fund is required to maintain a fund balance reserve of 25% of planned General Fund revenues for the subsequent year as passed by motion resolution of City Council. Any additions to the reserve or conditions under which the reserve amount may be spent would require formal action from City Council. As of December 31, 2012, the amount of the reserve was \$5,611,302. This amount is included in the unassigned fund balance of the General Fund.

#### **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.

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. Interfund transfers are eliminated on the Entity-wide Statement of Activities.

#### **P. Due to/from other funds & Interfund Loans Payable/Receivable**

On Fund Financial Statements, outstanding interfund loans are reported as "Interfund Loans Receivable" and "Interfund Loans Payable." Unpaid amounts for interfund services are reported as "Due to Other

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

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

Funds" and "Due from Other Funds". Interfund balances are eliminated on the Government-wide Statement of Net Position except for any net residual amounts due between Governmental and Business-type Activities, which are presented as "Internal Balances." The City had no interfund loans at December 31, 2012.

#### **Q. Net Position**

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position 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 position is 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.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The Government-wide Statement of Net Position reports \$18,155,103 of restricted net position, 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 Governmental Activities and Proprietary Fund Financial Statements arise from outside contributions of capital assets, transfers of capital assets between Governmental and Proprietary Funds, or from grants or outside contributions of resources restricted to capital acquisition and construction. The City's Proprietary Funds received \$244,637 in capital contributions from Governmental Activities during the year. On the Statement of Activities, Enterprise Fund capital contributions resulting from the transfer of Governmental capital assets are reported as general revenue transfers.

#### **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.

#### **NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance 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 and disbursements.

The Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (non-GAAP Budgetary Basis) presented for the General Fund and the Tax Increment Equivalent Fund are presented 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:

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 3 – BUDGETARY BASIS OF ACCOUNTING** *(continued)*

- (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) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget 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 all Governmental Funds for which a Budgetary Basis Statement is presented:

#### **Net Change in Fund Balance**

	<u>General</u>	<u>Tax Incremental Equivalent</u>
Budget basis	\$(6,049,587)	\$ (12,954)
Net adjustment for revenue accruals	(658,540)	-
Net adjustment for expenditure accruals	(614,646)	242,077
Funds budgeted elsewhere	(86,418)	-
Adjustment for encumbrances	<u>3,950,844</u>	<u>23,339</u>
GAAP basis	<u><u>\$(3,458,347)</u></u>	<u><u>\$ 252,462</u></u>

Certain funds that are legally budgeted in separate Special Revenue Funds are considered part of the General Fund on a GAAP basis. This includes the Law Enforcement Trust Fund, the Police Duty Weapon Fund, the Vending Machine Fund, Reserve for Sick/Vacation Fund and Unclaimed Monies Fund.

#### **NOTE 4 - 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, or in money market deposit accounts.

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.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 4 – DEPOSITS AND INVESTMENTS** (*continued*)

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 and STAR Plus).

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.

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 \$397,581 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, 2012. This amount is not included in the City's depository balance below.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 4 – DEPOSITS AND INVESTMENTS (continued)**

**Cash in Segregated Accounts:** At year end, the City had \$54,066 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, 2012, the carrying amount of all City deposits was \$423,143. The bank balance of all City deposits was \$1,081,734 of which \$759,623 was covered by FDIC insurance and \$322,111 was uninsured. Of the remaining uninsured bank balance, all was collateralized with securities held by the pledging institution's trust department, not in the City's name.

#### **Investments**

As of December 31, 2012, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities			
		1 Year or Less	1 to 2 Years	2 to 3 Years	Greater Than 3 Years
<b>Government &amp; Government Sponsored Entity Bonds</b>					
FFCB	\$ 4,000,720	\$ -	\$ 1,999,240	\$ -	\$ 2,001,480
FHLB	4,364,684	205,204	2,000,100	-	2,159,380
FHLMC	4,013,260	-	-	999,650	3,013,610
FNMA	14,293,315	503,590	756,085	1,006,530	12,027,110
<b>Mortgage &amp; Asset Backed Securities</b>					
FHLMC Gold Series 2717	2,437	-	-	-	2,437
<b>Other Investments</b>					
Negotiable CD's	20,111,922	9,042,922	3,693,000	2,839,000	4,537,000
U.S. Government money market					
mutual fund	1,574,453	1,574,453	-	-	-
STAR Ohio	137,313	137,313	-	-	-
<b>Total</b>	<b>\$ 48,498,104</b>	<b>\$ 11,463,482</b>	<b>\$ 8,448,425</b>	<b>\$ 4,845,180</b>	<b>\$ 23,741,017</b>

The weighted average length to maturity of the investments is 2.65 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 government and government sponsored entity bonds carry a rating of Aaa by Moody's and AA+ by Standard and Poor's. The mortgage and asset backed securities carry a rating of AA+ by Standard and Poor's. STAROhio and the U.S. government money market mutual funds carry a rating of AAA 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

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 4 – 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 government and government sponsored entity bonds and mortgage and asset backed securities 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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Government & Government Sponsored Entity Bonds		
FFCB	\$ 4,000,720	8.249
FHLB	4,364,684	9.000
FHLMC	4,013,260	8.275
FNMA	14,293,315	29.472
Mortgage & Asset Backed Securities		
FHLMC Gold Series 2717	2,437	0.005
Other Investments		
Negotiable CD's	20,111,922	41.470
U.S. Government money market		
mutual fund	1,574,453	3.246
STAR Ohio	137,313	0.283
Total	<u>\$ 48,498,104</u>	<u>100.00</u>

#### **NOTE 5 – 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 up to one and one half percent. In no instance shall the credit exceed the amount levied by the City. 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. The City has entered into an agreement with the Regional Income Tax Authority (RITA) for income tax administration (see Note 19)

#### **NOTE 6 – 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

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 6 – PROPERTY TAX** *(continued)*

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 proceeding 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. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Gahanna. The County Treasurer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the Governmental Funds and Governmental Activities, the current portion receivable has been offset by a deferred inflow of resources since current taxes were not levied to finance 2012 operations. In Governmental Funds the collection of delinquent taxes has also been offset by a deferred inflow of resources 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.

The full tax rate for all City operations for the year ended December 31, 2012 was \$2.40 per \$1,000 of assessed value. The assessed values of real and public utility upon which 2012 property tax receipts were based are as follows:

#### Real property

Residential/agricultural	\$ 713,527,560
Commercial/industrial/mineral	181,335,640

#### Public utility

Real	65,670
Personal	9,701,520
Total assessed value	<u><u>\$ 904,630,390</u></u>

#### **NOTE 7 – RECEIVABLES**

Receivables at December 31, 2012, are considered fully collectible and will be received within one year with the exception of property taxes and income taxes. Property and income taxes, although ultimately collectible, include some portion of delinquents that will not be collected within one year. 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.

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 8 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012, was as follows:

	12/31/2011	Additions	Deletions	12/31/2012
<b>Governmental Activities</b>				
Non-depreciable Capital Assets				
Land & Land Improvements	\$ 20,514,768	\$ 319,656	\$ -	\$ 20,834,424
Right of Ways	1,939,543	-	-	1,939,543
Easements	384,155	-	-	384,155
Construction in Progress	2,170,359	1,635,054	(2,743,967)	1,061,446
Total Non-depreciable Capital Assets	<u>25,008,825</u>	<u>1,954,710</u>	<u>(2,743,967)</u>	<u>24,219,568</u>
Depreciable Capital Assets				
Buildings	26,631,300	-	(262,056)	26,369,244
Improvements Other Than Buildings	8,445,575	773,037	-	9,218,612
Machinery & Equipment	9,178,133	643,871	(73,038)	9,748,966
Vehicles	3,206,450	795,179	(61,749)	3,939,880
Infrastructure	82,974,404	1,705,015	(83,333)	84,596,086
Total Depreciable Capital Assets	<u>130,435,862</u>	<u>3,917,102</u>	<u>(480,176)</u>	<u>133,872,788</u>
Less: Accumulated Depreciation				
Buildings	(4,377,189)	(532,861)	80,800	(4,829,250)
Improvements Other Than Buildings	(3,827,277)	(352,989)	-	(4,180,266)
Machinery & Equipment	(5,160,148)	(400,099)	65,813	(5,494,434)
Vehicles	(2,852,964)	(225,351)	60,776	(3,017,539)
Infrastructure:	(49,704,412)	(2,160,227)	83,333	(51,781,306)
Total Accumulated Depreciation	<u>(65,921,990)</u>	<u>(3,671,527)</u>	<u>290,722</u>	<u>(69,302,795)</u>
Governmental Activities Capital Assets, Net	<u>\$ 89,522,697</u>	<u>\$ 2,200,285</u>	<u>\$ (2,933,421)</u>	<u>\$ 88,789,561</u>

Depreciation expense was charged to governmental programs as follows:

General Government	\$ 812,963
Security of Persons & Property	274,534
Community Environment	361,456
Leisure Time Activities	667,395
Transportation	1,555,179
Total Depreciation Expense	<u>\$ 3,671,527</u>

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 8 – CAPITAL ASSETS (continued)**

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
<b><u>Business-type Activities</u></b>				
Non-depreciable Capital Assets				
Land & Land Improvements	\$ 299,981	\$ 580,419		\$ 880,400
Right of Ways	22,886			22,886
Easements	9,350			9,350
Construction in Progress	851,149	531,193	(1,326,638)	55,704
Total Non-depreciable Capital Assets	<u>1,183,366</u>	<u>1,111,612</u>	<u>(1,326,638)</u>	<u>968,340</u>
Depreciable Capital Assets				
Buildings	1,113,757			1,113,757
Improvements Other Than Buildings	643,370	14,904		658,274
Machinery & Equipment	2,107,973	18,157		2,126,130
Vehicles	682,076	55,067		737,143
Infrastructure				
Storm Sewer Lines	13,466,569	155,006		13,621,575
Water Lines & Other	41,626,538	196,425		41,822,963
Sewer Lines & Other	25,860,401	273,999		26,134,400
Total Depreciable Capital Assets	<u>85,500,684</u>	<u>713,558</u>	<u>-</u>	<u>86,214,242</u>
Less: Accumulated Depreciation				
Buildings	(474,027)	(22,323)		(496,350)
Improvements Other Than Buildings	(83,033)	(32,454)		(115,487)
Machinery & Equipment	(569,783)	(76,415)		(646,198)
Vehicles	(412,913)	(90,368)		(503,281)
Infrastructure				
Storm Sewer Lines	(4,091,344)	(206,348)		(4,297,692)
Water Lines & Other	(18,145,858)	(667,663)		(18,813,521)
Sewer Lines & Other	(10,365,088)	(400,510)		(10,765,598)
Total Accumulated Depreciation	<u>(34,142,046)</u>	<u>(1,496,081)</u>	<u>-</u>	<u>(35,638,127)</u>
Business-type Activities Capital Assets, Net	<u>\$ 52,542,004</u>	<u>\$ 329,089</u>	<u>\$ (1,326,638)</u>	<u>\$ 51,544,455</u>

Depreciation expense was charged to the enterprise funds as follows:

Water	\$ 747,749
Sewer	492,553
Storm Water	255,779
Total Depreciation Expense	<u>\$ 1,496,081</u>

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**

##### **A. Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS) for all employees except those enrolled in the Ohio Police and Fire Pension Plan. 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. The City does not currently have any employees enrolled in the law enforcement and public safety divisions.

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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, 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 2012, member contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members in State and local classifications. The City's contribution rate for 2012 was 14.00% of covered payroll. If the City had employees in the law enforcement or public safety divisions, members would have contributed 11.50% and 12.10% for the public and law enforcement members respectively and the City's contribution rate would have been 18.10% of covered payroll for. Of the employer contribution rates, 4% for the Traditional Plan and 6.05% of the Combined Plan were allocated to post employment health care benefits.

The City's contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$634,655, \$645,967, and \$1,128,945, respectively; which represent 100% of the required pension obligations for 2012, 2011 and 2010. Contributions to the Member-Directed Plan for 2012 were \$57,487 made by the City and \$41,062 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) for all sworn police officers of the City, 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.

Funding Policy - Plan members are required to contribute 10.00% of their annual covered salary, while the City is required to contribute 19.50% for police officers. If the City had firefighters, the member would

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 9 – DEFINED BENEFIT PENSION PLANS**(continued)

contribute 10.00% and the City would contribute 24.00%. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers. If the City had firefighters, 17.25% would be the portion of the City's contributions to fund pension obligations. The City's contributions for pension obligations to OP&F for police officers for December 31, 2012, 2011 and 2010 were \$597,951, \$574,639, and \$578,573 respectively; which represent 100% of the required pension obligations for 2012, 2011 and 2010.

#### **NOTE 10 - 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 visiting [www.opers.org/investments/cafr.shtml](http://www.opers.org/investments/cafr.shtml), 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 administered in accordance with, Internal Revenue Code Section 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. Active members do not make contributions to the post-employment healthcare plan.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll (18.10% 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 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

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.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$258,858, \$263,707, and \$640,246, respectively; which represent 100% of the required obligations for 2012, 2011 and 2010.

On September 19, 2012, changes to the health care plan were adopted by the OPERS Board of Trustees, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved healthcare changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 10 - 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 or is a spouse or eligible dependent 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 these percentages for police and 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 Internal Revenue Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code Section 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, 2012, 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 for December 31, 2012, 2011 and 2010 were \$316,347, \$304,221 and \$304,763; which represent 100% of the required obligations for 2012, 2011 and 2010.

#### **NOTE 11 – EMPLOYEE BENEFITS**

##### **A. Compensated Absences**

Vacation leave is earned bi-weekly at a rate which varies depending upon negotiated agreements or employment ordinances, length of service and standard work week. Current policy allows the unused

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 11 – EMPLOYEE BENEFITS** *(continued)*

balance to be accumulated at levels which depend upon negotiated agreements and employment ordinances. 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 negotiated agreements or employment ordinances, years of service worked and can be accumulated without limit. Each employee with the City is paid, according to contract or ordinance, 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. Current policy allows accumulation of compensatory time to levels established by negotiated agreements or employment ordinances and there are no timing restrictions on when accumulated compensatory time must be used. City employees are paid for earned, unused compensatory leave at the time of termination of employment.

All termination benefits are paid from the General Fund. Leave usage is paid from the same fund as the employee's regular wages.

#### **B. Deferred Compensation Plan**

Employees of the City may elect to participate in the Ohio Public Employees Deferred Compensation Program or other deferred compensation plans 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 provides basic hospital, surgical and prescription drug coverage. See Note 17 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 12 – 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 a Special Revenue Fund rent receipts. On a full accrual basis, the amount of the receivable that has been earned is recorded as rental revenue and the unearned portion has been recorded as a deferred inflow of resources.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 12 – LEASE RECEIVABLE**(continued)

The following is a schedule of the future long-term lease receivable as of December 31, 2012.

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	13,466
2014	5,235
Total Lease Receivable	<u><u>\$18,701</u></u>

#### **NOTE 13 – 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 2012 follows:

Types / Issues	Balance 12/31/2011 *	Issued	Retired	Balance 12/31/2012	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%	\$ 7,947,557	\$ -	\$ (422,705)	\$ 7,524,852	\$ 442,119
Term bonds 4.25%	3,185,000	-	-	3,185,000	-
Premium on bonds issued	252,544	-	(13,350)	239,194	-
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	7,575,964	-	(334,396)	7,241,568	347,688
Premium on bonds issued	166,750	-	(10,758)	155,992	-
Total general obligations bonds	<u>19,127,815</u>	<u>-</u>	<u>(781,209)</u>	<u>18,346,606</u>	<u>789,807</u>
<u>Other long-term obligations</u>					
2006 - OPWC Loan 0% (CC13G)	526,425	-	(95,714)	430,711	95,713
2009 - OPWC Loan 0% (CC02L)	984,504	-	(51,816)	932,688	51,816
2011 - OPWC Loan 0% (CC16M)	136,681	598,443	(36,756)	698,368	36,756
Lease Purchase Agreement	625,714	-	(104,286)	521,428	104,286
SIB Loan 3%	4,905,070	116,178	(616,979)	4,404,269	1,212,060
Compensated absences payable	2,152,055	1,141,763	(1,090,350)	2,203,468	768,370
Total other long-term obligations	<u>9,330,449</u>	<u>1,856,384</u>	<u>(1,995,901)</u>	<u>9,190,932</u>	<u>2,269,001</u>
Total governmental activities	<u><u>\$ 28,458,264</u></u>	<u><u>\$ 1,856,384</u></u>	<u><u>\$ (2,777,110)</u></u>	<u><u>\$ 27,537,538</u></u>	<u><u>\$ 3,058,808</u></u>

\* Beginning balance has been restated for compensatory time payable treated as a current liability in previous years. Compensatory time may be accumulated and carried over from year to year without time constraints placed on when the accumulated leave must be used. As a result it should be treated similar to vacation leave, as a long-term liability. This has no impact on beginning net position.

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS (continued)**

Types / Issues	Balance 12/31/2011 *	Issued	Retired	Balance 12/31/2012	Due Within One Year
<b><u>Business-type activities:</u></b>					
<b><u>General obligation bonds</u></b>					
Water fund					
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	\$ 297,018	\$ -	\$ (12,802)	\$ 284,216	\$ 13,656
Premium on bonds issued	6,263	-	(404)	5,859	-
Sewer fund					
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	297,019	-	(12,802)	284,217	13,656
Premium on bonds issued	6,262	-	(404)	5,858	-
Storm water fund					
2005 - Creekside Phase II and					
Morrison Road					
Serial bonds 3.25% to 5.0%	232,442	-	(12,295)	220,147	12,881
2007 - Various purpose					
Serial bonds 3.76% to 4.6%	1,705,000	-	(75,000)	1,630,000	80,000
Premium on bonds issued	35,977	-	(2,321)	33,656	-
Total general obligations bonds	<u>2,579,981</u>	<u>-</u>	<u>(116,028)</u>	<u>2,463,953</u>	<u>120,193</u>
<b><u>Other long-term obligations</u></b>					
1996 - OPWC Loan 3.5 %	24,277	-	(11,928)	12,349	12,349
Compensated absences payable	58,236	76,230	(78,381)	56,085	43,074
Total other long-term obligations	<u>82,513</u>	<u>76,230</u>	<u>(90,309)</u>	<u>68,434</u>	<u>55,423</u>
Total business-type activities	<u>\$ 2,662,494</u>	<u>\$ 76,230</u>	<u>\$ (206,337)</u>	<u>\$ 2,532,387</u>	<u>\$ 175,616</u>

\* Beginning balance has been restated for compensatory time payable treated as a current liability in previous years. Compensatory time may be accumulated and carried over from year to year without time constraints placed on when the accumulated leave must be used. As a result it should be treated similar to vacation leave, as a long-term liability. This has no impact on beginning Net Position.

The City's overall voted legal debt margin (the ability to issue additional amounts of general obligation debt) was \$78,218,507, with an unvoted debt margin of \$49,754,671 at December 31, 2012.

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 13 – 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,	Government-Type Activities									
	Serial Bonds		Term Bonds		OPWC Loan		Lease Purchase		SIB Loan	
	Principal	Interest	Principal	Interest	Principal	Principal	Principal	Principal	Interest	
2013	\$ 789,807	\$ 835,757	\$ -	\$ -	\$ 184,285	\$ 104,286	\$ 1,212,060	\$ 130,702		
2014	822,515	805,506	-	-	184,286	104,286	1,248,441	86,473		
2015	846,929	772,834	-	-	184,285	104,286	1,286,175	48,739		
2016	880,222	739,195	-	-	184,286	104,286	657,593	9,864		
2017	927,344	698,101	-	-	136,429	104,284	-	-		
2018-2022	5,346,697	2,784,742	-	-	442,860	-	-	-		
2023-2027	5,152,907	1,089,454	1,195,000	245,892	442,860	-	-	-		
2028-2030	-	-	1,990,000	171,488	302,476	-	-	-		
Totals	<b>\$ 14,766,421</b>	<b>\$ 7,725,589</b>	<b>\$ 3,185,000</b>	<b>\$ 417,380</b>	<b>\$ 2,061,767</b>	<b>\$ 521,428</b>	<b>\$ 4,404,269</b>	<b>\$ 275,778</b>		

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	<b>\$3,185,000</b>

Annual debt service requirements to maturity for Business-type Activities long term obligations are:

Year Ending December 31,	Business-Type Activities								
	Water General Obligation Bonds		Sewer General Obligation Bonds		Stormwater General Obligation Bonds		Sewer OPWC Loan		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
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	15,363	11,623	15,363	11,623	104,052	75,637	-	-	
2017	16,216	10,970	16,216	10,970	110,223	71,110	-	-	
2018-2022	93,032	43,306	93,033	43,306	612,240	277,620	-	-	
2023-2027	116,931	18,094	116,931	18,094	738,233	111,192	-	-	
Totals	<b>\$ 284,216</b>	<b>\$ 122,524</b>	<b>\$ 284,217</b>	<b>\$ 122,524</b>	<b>\$ 1,850,147</b>	<b>\$ 786,549</b>	<b>\$ 12,349</b>	<b>\$ 325</b>	

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS** *(continued)*

##### **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.

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.

##### **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 and transfers from the General Fund.

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 and transfers from the General Fund.

The 2012 OPWC loan consists of \$735,124 borrowed from the Ohio Public Works Commission for U.S. 62 and Styler Road improvements. The 20 year loan will be paid with property taxes from the Debt Service Fund and transfers from the General Fund. As of December 31, 2012, all proceeds have been spent.

##### **D. Lease Purchase Agreement**

During 2011, the City entered into a lease purchase agreement with the Gahanna Community Improvement Corporation (the CIC) to acquire land. The lease is interest free and the City agrees to make annual payments of \$104,286 for a period of seven years to the CIC beginning March 27, 2011. The CIC shall sell and convey the land on or before the eighth year anniversary and shall deliver said deed to the City at the time of closing. The lease will be paid with payments in lieu of taxes from the Tax Increment Equivalent Fund.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS** *(continued)*

##### **E. State Infrastructure Bank (SIB) Loan**

During 2011, the City entered into a State Infrastructure Bank (SIB) Loan to assist with the construction of an overpass related to Tech Center Drive. The overpass is owned by the State of Ohio as it passes over Interstate 270. The proceeds of the loan totaled \$5,021,248 with an annual interest rate of 3% and final maturity of January 15, 2016. The City has received a pledge of Federal Surface Transportation Program grant funds from the Mid Ohio Regional Planning Commission (MORPC) to pay a significant portion of the loan. MORPC has pledged \$5,019,248 for payment of loan principal and \$244,951 for payment of 80% of the interest. The amount pledged represents approximately 6.1% of MORPC Federal Surface Transportation projected grant revenues from State Fiscal Year 2013 to 2016 projected to be \$86,216,049. During 2012 the City received \$647,390 from MORPC, \$616,979 and \$30,411 were used to pay the SIB loan principal and interest due respectively. As of December 31, 2012, the remaining amount of the pledge receivable has been recorded within the Capital Projects Fund as an intergovernmental receivable.

#### **NOTE 14 – CONSTRUCTION COMMITMENTS**

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2012, the significant outstanding construction commitments were:

Project	Contract	Amount	Balance
	Amount	Completed	12/31/2012
Big Walnut Trail - Section 3	\$ 743,740	\$ 488,110	\$ 255,630
Creekside Improvements	132,000	28,835	103,165
Hamilton Road Central Local	792,732	449,268	343,464
Morrison/Claycraft ST998	48,000	17,150	30,850
Safe Routes to Schools	222,728	116,722	106,006
Truck Wash Facility	48,725	10,850	37,875
Upgrade Financial Mgmt Software	70,000	32,950	37,050
	<b>\$ 2,057,925</b>	<b>\$ 1,143,885</b>	<b>\$ 914,040</b>

#### **NOTE 15 – RISK MANAGEMENT**

##### **A. Property and Liability**

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.

##### **B. Workers' Compensation**

During 2011, the City was approved for self-insured status by the Ohio Bureau of Workers' Compensation and administers its own worker's compensation program. The City has established an employee benefits self-insurance internal service fund to account for assets set aside for claim settlements and related liabilities associated with the program. Liabilities of the fund are reported when an employee injury has occurred, it is probable that a claim will be filed under the program and the amount of the claim can be reasonably estimated. The City utilizes the services of a third party administrator to review, process, and pay employee claims.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 15 – RISK MANAGEMENT**(continued)

Changes in the funds' claims liability in 2011 and 2012 were as follows.

Year	Year	Balance at		Balance at	
		Beginning of	Current Year	Claims	End of
		Claims	Payments	End of Year	
2011	\$ -	\$ 4,229	\$ (4,229)	\$ -	
2012	\$ -	\$ 26,754	\$ (26,754)	\$ -	

#### **NOTE 16 – INTERFUND TRANSFERS**

Transfers made during the year ended December 31, 2012, were as follows:

Transfers From	Transfers To				
	General	Capital		Nonmajor	Total
		General	Improvement	Governmental	
General	\$ -	\$ 2,782,680	\$ 1,359,298	\$ 4,141,978	
Tax Increment Equivalent	32,619		293,381	326,000	
Nonmajor Governmental	-		515,828	515,828	
Total	<u>\$ 32,619</u>	<u>\$ 2,782,680</u>	<u>\$ 2,168,507</u>	<u>\$ 4,983,806</u>	

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 17 – 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 nine political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. The City pays monthly contributions to the Pool, which are used to cover claims and administrative costs, purchase excess loss insurance for the Pool and establish adequate reserves. Each members' contribution rate is established based on the number of employees and officers enrolled in the plan and the prior loss experience of the respective member group. In total, the members' contributions represent 110% of the projected pool costs to allow for adequate funding to establish and maintain an excess reserve for future operational needs. 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 funds held by the Pool are maintained in a bank trust account established for the sole purpose and benefit of the Pool operations. Financial information for the Pool can be obtained from Jennifer Teal, Treasurer of the Central Ohio Health Care Consortium, 200 South Hamilton Rd, Gahanna, Ohio 43230. The City's payment to the Pool for insurance coverage was \$2,167,360 during 2012.

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 17 – SHARED RISK POOL**(continued)

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 unlimited individual lifetime maximum. The aggregate excess loss coverage has been structured to indemnify the Pool for aggregate claims paid in excess of \$12,000,255 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 five 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 18 – 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. During 2012, the City completed the demolition of the fuel 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.

#### **NOTE 19 – JOINTLY GOVERNED ORGANIZATIONS**

In 1971, 38 municipalities joined together to organize a Regional Council of Governments (RCOG) under the authority of Chapter 167 of the Ohio Revised Code to administer tax collection and enforcement concerns facing the Cities and Villages. The purpose of the RCOG is to foster cooperation between the municipalities through sharing facilities for their common benefit. This includes the establishment of a central collection facility for the purpose of administering the income tax laws of the various municipal corporations who are members of the RCOG and for the purpose of collecting income taxes on behalf of each member municipality, doing all things allowed by law to accomplish such purpose. The first official act of the RCOG was to form the Regional Income Tax Agency (RITA). Today RITA serves as the income tax collection agency for 214 municipalities throughout the State of Ohio. During 2012, the City paid \$328,547, in income tax collection fees to RITA.

#### **NOTE 20 – 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, 2012 to December 31, 2012, the City received Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 21 – FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the Governmental Funds. The constraints placed on fund balance for the Major Governmental Funds and all Other Governmental Funds are presented below:

Fund balance	General	Tax Increment	Capital	Nonmajor	Total
		Equivalent	Improvement	Governmental Funds	Governmental Funds
<b>Nonspendable</b>					
Materials & Supplies Inventory	\$ 214,482	\$ -	\$ -	\$ -	\$ 214,482
Prepays	66,172	-	-	3,784	69,956
Unclaimed Monies	30,349	-	-	-	30,349
<b>Total Nonspendable</b>	<b>311,003</b>	<b>-</b>	<b>-</b>	<b>3,784</b>	<b>314,787</b>
<b>Restricted</b>					
Debt Service	-	-	-	1,183,758	1,183,758
Capital Improvements	-	-	4,774,558	-	4,774,558
General Government	-	-	-	1,302,582	1,302,582
Security of Persons & Property	-	-	-	1,260,856	1,260,856
Community Environment	-	2,955,807	-	-	2,955,807
Transportation	-	-	-	1,455,779	1,455,779
<b>Total Restricted</b>	<b>-</b>	<b>2,955,807</b>	<b>4,774,558</b>	<b>5,202,975</b>	<b>12,933,340</b>
<b>Committed</b>					
Capital Improvements	-	-	-	243,225	243,225
General Government	3,266	-	-	245,100	248,366
Sick/Vacation Leave	1,187,426	-	-	-	1,187,426
Leisure Time Activities	-	-	-	10,796	10,796
Transportation	-	-	-	23,527	23,527
<b>Total Committed</b>	<b>1,190,692</b>	<b>-</b>	<b>-</b>	<b>522,648</b>	<b>1,713,340</b>
<b>Assigned</b>					
Capital Improvements	1,771,664	-	-	246	1,771,910
Subsequent Year Appropriations	2,953,542	-	-	-	2,953,542
General Government	578,365	-	-	-	578,365
Security of Persons & Property	160,852	-	-	-	160,852
Community Environment	374,388	-	-	-	374,388
Leisure Time Activities	175,339	-	-	-	175,339
Transportation	142,396	-	-	-	142,396
<b>Total Assigned</b>	<b>6,156,546</b>	<b>-</b>	<b>-</b>	<b>246</b>	<b>6,156,792</b>
<b>Unassigned</b>	<b>10,395,966</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,395,966</b>
<b>Total Fund Balances</b>	<b>\$ 18,054,207</b>	<b>\$ 2,955,807</b>	<b>\$ 4,774,558</b>	<b>\$ 5,729,653</b>	<b>\$ 31,514,225</b>

## CITY OF GAHANNA

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

#### **NOTE 22 – OTHER COMMITMENTS**

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the Governmental Funds were as follows:

<u>Year-End</u>	
<u>Fund</u>	<u>Encumbrances</u>
General Fund	\$ 3,204,802
Tax Increment Equivalent	18,562
Capital Improvement	731,450
Other Governmental	<u>396,492</u>
Total	<u>\$ 4,351,306</u>

#### **NOTE 23 – SUBSEQUENT EVENTS**

The City issued \$8,975,000 of various purpose refunding bonds in April of 2013 to refund a portion of the 2005 outstanding bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$1,133,621. The bond proceeds were deposited in an irrevocable trust with an escrow agent and invested in obligations guaranteed as to both principal and interest by the United States Government. The principal and interest earned by the trust will be used to pay the principal and interest of the refunded bonds. The City completed the advance refunding to reduce debt service payments by \$1,059,470 over the life of the bonds and to obtain an economic gain of \$889,496.

#### **NOTE 24 – CHANGE IN ACCOUNTING PRINCIPLES**

During 2012 the City implemented GASB Statement No. 63 and 65 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and "Items Previously Reported as Assets and Liabilities". The objectives of the statements were to establish standards that reclassify certain items previously reported as assets and liabilities as (a) deferred outflows or inflows or resources or (b) expenses/expenditures or revenues and establishment of a statement of net position rather than net assets. As a result of implementing the statement the following assets and liabilities have been reclassified:

Item	Previous Classification	New Classification
Property Taxes and Revenue in Lieu of Taxes Levied for Subsequent Year	Liability - Unearned Revenue	Deferred Inflow of Resources
Unearned Lease Receivable	Liability - Unearned Revenue	Deferred Inflow of Resources
Receivables in Governmental Funds Not Received within the Available Period	Liability - Deferred Revenue	Deferred Inflow of Resources
Bond Issuance Cost	Asset - Deferred Bond Issuance Cost	Expense

**CITY OF GAHANNA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**

**NOTE 24 – CHANGE IN ACCOUNTING PRINCIPLES***(continued)*

The effect of these changes has been applied retroactively; as a result the beginning of year net position has been restated to reflect the expensing of bond issuance costs as follows:

	Governmental Activities	Business-type Activities	Water	Enterprise Funds	
				Sewer	Storm Water
Net position, as previously reported	97,446,291	68,550,971	29,711,057	27,976,183	10,859,062
Effect of change in accounting related to bond issuance costs	(163,883)	(22,412)	(2,905)	(2,905)	(16,602)
Net position, as restated	<u>97,282,408</u>	<u>68,528,559</u>	<u>29,708,152</u>	<u>27,973,278</u>	<u>10,842,460</u>

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 14, 2013, wherein we noted the City adopted the provisions of Governmental Accounting Standards No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

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 combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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

***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, opining 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*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

August 14, 2013



# 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.

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

**CERTIFIED  
SEPTEMBER 10, 2013**