

**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

Basic Financial Statements
(Audited)

For The Year Ended
December 31, 2003

JERRY ISLER, DIRECTOR OF FINANCE



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of the City of Gahanna, Franklin County, prepared by Trimble, Julian & Grube, Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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BETTY MONTGOMERY
Auditor of State

February 1, 2005

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**CITY OF GAHANNA
FRANKLIN COUNTY, OHIO**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

Independent Auditor’s Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, Franklin County, Ohio as of and for the year ended December 31, 2003, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gahanna’s management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, as of December 31, 2003, and the respective change in financial position and cash flows, where applicable, thereof and respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, for the year ended December 31, 2003. In addition, the City had a change in accounting principle for its capitalization threshold for capital assets as disclosed in Note 3.

Members of Council and Mayor
Independent Auditor's Report

In accordance with *Government Auditing Standards*, we have also issued a report dated August 16, 2004, on our consideration of the City of Gahanna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying required supplementary information, such as management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Trimble, Julian & Grube, Inc.
August 16, 2004

CITY OF GAHANNA, OHIO
Management's Discussion and Analysis
For The Year Ended December 31, 2003
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Gahanna's discussion and analysis of the annual financial report provides a review of the financial performance for the year ended December 31, 2003.

FINANCIAL HIGHLIGHTS

- ' The City's total net assets increased \$7,350,070. Revenues of Governmental Activities exceeded expenses by \$5,709,308. Much of this excess was used for the acquisition and construction of capital assets including Hermitage Road rebuild, James Road Bridge, the Skate Park, Eastgate Industrial Center, and preparation for the widening of Hamilton Road. Net assets of Business-Type Activities increased by \$1,640,762.
- ' General revenues of Governmental Activities accounted for \$19,372,662 or 81.96 percent of all governmental revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,264,160 or 18.04 percent of total governmental revenues of \$23,636,822.
- ' Enterprise funds reflected a total operating income of \$1,692,175. The Water Fund reflected an operating income of \$151,697, while the Sewer Fund reflected an operating income of \$1,540,478, due to higher revenue received for capacity and front foot charges.
- ' The City had \$17,901,117 in expenses related to Governmental Activities. \$4,264,160 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily income taxes) of \$19,372,622 were more than adequate to provide for these programs. The City had \$7,227,147 in expenses related to Business-Type Activities, which were offset entirely by program specific charges for services.

USING THIS ANNUAL FINANCIAL REPORT

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

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

REPORTING THE CITY AS A WHOLE

Statement of Net Assets and the Statement of Activities

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

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page 7. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by state law and bond covenants. Other funds may be established by the Finance Director, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City of Gahanna's major funds are the General, Capital Improvement, Water, and Sewer Funds.

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

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

THE CITY AS A WHOLE

As stated previously, the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
Assets						
Current and Other						
Assets	\$38,115,821	\$40,926,412	\$12,583,666	\$15,699,720	\$50,699,487	\$56,626,132
Nondepreciable Capital						
Assets	15,987,345	16,630,997	205,524	144,972	16,192,869	16,775,969
Depreciable Capital						
Assets, Net	35,770,035	37,450,181	42,292,253	41,755,569	78,062,288	79,205,750
Total Assets	<u>89,873,201</u>	<u>95,007,590</u>	<u>55,081,443</u>	<u>57,600,261</u>	<u>144,954,644</u>	<u>152,607,851</u>
Liabilities						
Current and Other						
Liabilities	4,035,448	3,850,674	152,191	1,391,125	4,187,639	5,241,799
Long-Term Liabilities:						
Due Within One Year	941,614	2,260,383	360,878	364,195	1,302,492	2,624,578
Due in More Than						
One Year	4,327,512	2,618,598	1,201,685	837,490	5,529,197	3,456,088
Total Liabilities	<u>9,304,574</u>	<u>8,729,655</u>	<u>1,714,754</u>	<u>2,592,810</u>	<u>11,019,328</u>	<u>11,322,465</u>
Net Assets	89,873,201					
Invested in Capital						
Assets, Net Of						
Related Debt	47,571,985	50,338,129	40,935,214	40,698,856	88,507,199	91,036,985
Restricted for:						
Capital Outlay	3,539,131	3,360,815	0	0	3,539,131	3,360,815
Debt Service	1,303,638	1,272,938	0	0	1,303,638	1,272,938
Other Purposes	5,227,648	6,434,241	0	0	5,227,648	6,434,241
Unrestricted	22,926,225	24,871,812	12,431,475	14,308,595	35,357,700	39,180,407
Total Net Assets	<u>\$80,568,627</u>	<u>\$86,277,935</u>	<u>\$53,366,689</u>	<u>\$55,007,451</u>	<u>\$133,935,316</u>	<u>\$141,285,386</u>

Total net assets increased \$7,350,070. Net assets of the City's Governmental Activities increased by \$5,709,308 with unrestricted net assets increasing \$1,945,587.

The net assets of the City's Business-Type Activities increased by \$1,640,762. The City strives to control operation expenses for Business-Type Activities in order to maintain stability in charges for services and to closely monitor the trends of the growing community in order to adjust for budgetary issues and changes in City code where necessary. The City has adjusted rates based on the increases made by the City of Columbus.

Table 2 shows changes in net assets for the year ended December 31, 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes In Net Assets

	Governmental Activities	Business-Type Activities	Total
	2003	2003	2003
Revenues			
Program Revenues:			
Charges for Services	\$1,863,437	\$8,820,673	\$10,684,110
Operating Grants, Contribution and Interest	2,285,268	0	2,285,268
Capital Grants, Contributions and Interest	115,455	0	115,455
Total Program Revenues	4,264,160	8,820,673	13,084,833
General Revenues:			
Property and Other Local Taxes	1,739,747	0	1,739,747
Income Taxes	12,281,635	0	12,281,635
Grants and Entitlements	4,434,696	0	4,434,696
Investment Earnings	742,365	0	742,365
Other	174,219	20,839	195,058
Total General Revenues	19,372,662	20,839	19,393,501
Total Revenues	23,636,822	8,841,512	32,478,334
Program Expenses:			
Security of Persons and Property	6,121,881	0	6,121,881
Public Health	154,330	0	154,330
Leisure Time Activities	1,727,123	0	1,727,123
Community Development	2,426,009	0	2,426,009
Basic Utility Service	704,074	0	704,074
Transportation	3,369,875	0	3,369,875
General Government	3,169,369	0	3,169,369
Interest and			
Fiscal Charges	228,456	0	228,456
Water	0	3,276,839	3,276,839
Sewer	0	3,950,308	3,950,308
Total Expenses	17,901,117	7,227,147	25,128,264
Increase in Net Assets before Transfers	5,735,705	1,614,365	7,350,070
Transfers	(26,397)	26,397	0
Increase in Net Assets	\$5,709,308	\$1,640,762	\$7,350,070

Governmental Activities

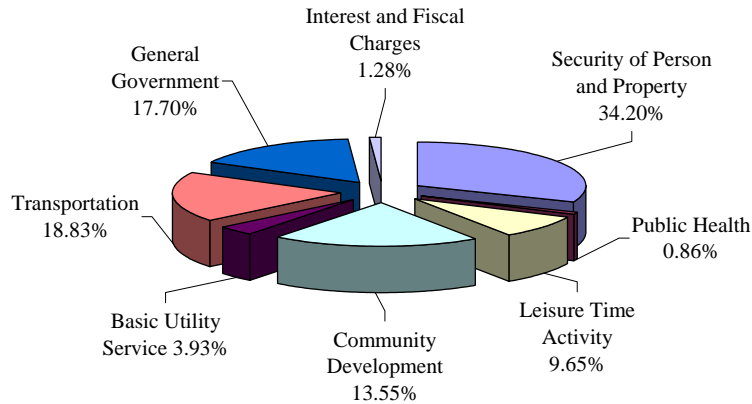
The 1.5 % income tax is the largest source of revenue for the General Fund and the City of Gahanna. Employee withholding from all businesses contributes 66.3% of the revenue received in 2003 with business earnings contributing 8.3% and individuals contributing 25.4%. The City provides 83 1/3% tax credit for taxes paid to another municipality and an exemption for residents under the age of 18.

Since 1992, income tax revenue has increased an average of 10.97%. During 2002 and 2003, a few of Gahanna's employers went through reorganization and downsizing. However, other companies expanded and new businesses were added to the economic base.

Administration and Council has a quality of life commitment to the citizens and businesses located in Gahanna. With this in mind, Council committed through appropriations in 2003 \$33,509,462 from governmental and business sources including federal and state grants for capital assets, equipment, and

related repairs. These assets included street reconstruction, street resurfacing, sidewalk replacements, safety and street maintenance equipment and vehicles, as well as park and recreation equipment.

Governmental program expenses for 2003 were as follows:



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

When looking at the sources of income to support Governmental Activities, it should be noted that charges for services are only 7.89% of revenue. Revenues provided by sources other than City residents in the form of operating and capital grants comprise another 10.15%. The remaining revenues are primarily generated locally through property and income taxes. City Council relies on these taxes to furnish the quality of life to businesses and citizens to which they and previous Councils have always been committed.

Business-Type Activities

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

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

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

THE CITY'S FUNDS

Information about the City's major Governmental Funds begins on page 14. These funds are reported using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$23,565,162 and expenditures of \$20,754,558. The General Fund balance increased \$1,528,453.

The Capital Improvement fund balance increased \$221,468. Fund balance at December 31, 2002 was \$2,920,906.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts, disbursements, and encumbrances. The City's budget is adopted on a fund basis. Before the budget is adopted, Council reviews detailed budget worksheets of each function within the General fund and then adopts the budget on a fund basis. During 2003 there were forty-nine revisions to the General fund budget. The net effect of the revisions was an increase in the appropriations of \$2,108,100.

The Finance Director has the authority to make line item adjustments within each fund, as long as the total does not exceed the original budget appropriations.

Original General Fund budgeted revenues were \$19,547,363. The final budgeted amount was \$21,122,983. This increase of \$1,575,620 was due primarily to donations made for future road projects, the sale of assets, refunds from finalized road construction, interest income, and an additional \$255,297 from the State of Ohio Local Government Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 3
Capital Assets
(Net Of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
Land	\$12,960,915	\$12,947,298	\$0	\$39,210	12,960,915	12,986,508
Construction in Progress	3,026,430	3,683,699	205,524	105,762	3,231,954	3,789,461
Buildings	6,860,919	6,823,503	772,980	745,839	7,633,899	7,569,342
Improvement Other Than Bulidings	2,425,116	2,847,019	0	0	2,425,116	2,847,019
Machinery And Equipment	1,876,792	2,429,232	356,984	379,938	2,233,776	2,809,170
Vehicles	836,468	867,404	0	0	836,468	867,404
Infrastructure:						
Bridges & Culverts	3,474,456	3,621,292	0	0	3,474,456	3,621,292
Sidewalks	1,119,742	1,016,344	0	0	1,119,742	1,016,344
Streets & Curbs	8,745,085	9,745,997	0	0	8,745,085	9,745,997
Street Lighting	741,770	650,399	0	0	741,770	650,399
Storm Sewer	6,971,332	7,165,674	0	0	6,971,332	7,165,674
Traffic Control Lighting	2,718,355	2,283,317	0	0	2,718,355	2,283,317
Water	0	0	25,867,062	25,450,527	25,867,062	25,450,527
Sewer	0	0	15,295,227	15,179,265	15,295,227	15,179,265
Totals	<u>\$51,757,380</u>	<u>\$54,081,178</u>	<u>\$42,497,777</u>	<u>\$41,900,541</u>	<u>\$94,255,157</u>	<u>\$95,981,719</u>

The majority of the increase in governmental capital assets was the result of the addition of \$657,269 in construction in progress, \$421,903 in improvements other than buildings, \$552,440 in machinery and equipment, and \$712,283 in newly constructed infrastructure. These additions are offset by \$3,141,628 in depreciation for the year.

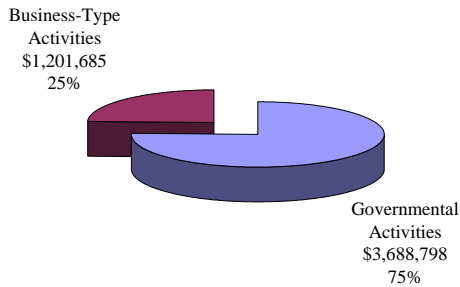
See note 9 of the notes to the basic financial statements for more detailed information.

Debt

At December 31, 2003, the City of Gahanna had \$4,890,483 in debt outstanding.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities	
	2002	2003	2002	2003
General Obligation Bonds	\$2,685,000	\$2,300,000	\$1,435,000	\$1,100,000
OPWC Loans Payable	0	0	110,566	101,685
Promissory Notes	1,500,395	1,388,798	0	0
Total	\$4,185,395	\$3,688,798	\$1,545,566	\$1,201,685



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

The City’s overall 10.5 percent legal debt margin was \$84,447,023 as of December 31, 2003. The more restrictive unvoted legal debt margin within 5.5 percent was \$43,740,361 as of the same date. See Note 14 of the notes to the basic financial statements for more detailed information.

CONTACTING THE CITY’S FINANCE DEPARTMENT

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

CITY OF GAHANNA, OHIO

Statement Of Net Assets

December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity In Pooled Cash And Cash Equivalents	\$30,665,294	\$13,680,970	\$44,346,264
Cash And Cash Equivalents With Fiscal Agents	1,156,593	0	1,156,593
Accrued Interest Receivable	115,147	0	115,147
Accounts Receivable	358,258	1,976,868	2,335,126
Municipal Income Tax Receivable	3,536,065	0	3,536,065
Due From Other Governments	1,985,960	0	1,985,960
Prepaid Items	78,471	9,560	88,031
Materials And Supplies Inventory	173,752	29,528	203,280
Property And Other Local Taxes Receivable	1,959,528	0	1,959,528
Special Assessments Receivable	4,220	2,794	7,014
Capital Leases Receivable	893,124	0	893,124
Land And Construction In Progress	16,630,997	144,972	16,775,969
Depreciable Capital Assets, Net	37,450,181	41,755,569	79,205,750
<i>Total Assets</i>	<u>95,007,590</u>	<u>57,600,261</u>	<u>152,607,851</u>
<u>Liabilities:</u>			
Accounts Payable	425,260	7,587	432,847
Accrued Wages	229,224	14,968	244,192
Contracts Payable	721,482	79,374	800,856
Matured Compensated Absences Payable	26,378	0	26,378
Retainage Payable	87,330	0	87,330
Due To Other Governments	334,334	1,253,889	1,588,223
Deferred Revenue	1,924,526	0	1,924,526
Accrued Interest Payable	17,368	7,200	24,568
Vacation Payable	0	25,498	25,498
Compensatory Time Payable	84,772	2,609	87,381
Long-Term Liabilities:			
Due Within One Year	2,260,383	364,195	2,624,578
Due Within More Than One Year	2,618,598	837,490	3,456,088
<i>Total Liabilities</i>	<u>8,729,655</u>	<u>2,592,810</u>	<u>11,322,465</u>
<u>Net Assets:</u>			
Invested In Capital Assets, Net Of Related Debt	50,338,129	40,698,856	91,036,985
Restricted For:			
Capital Projects	3,360,815	0	3,360,815
Debt Service	1,272,938	0	1,272,938
Other Purposes	6,434,241	0	6,434,241
Unrestricted	24,871,812	14,308,595	39,180,407
<i>Total Net Assets</i>	<u>\$86,277,935</u>	<u>\$55,007,451</u>	<u>\$141,285,386</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

Statement Of Activities

For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest
<u>Governmental Activities:</u>				
Security Of Persons And Property	\$6,121,881	\$56,693	\$15,704	\$3,892
Public Health	154,330	0	0	0
Leisure Time Activities	1,727,123	511,527	0	0
Community Development	2,426,009	504,120	0	111,563
Basic Utility Service	704,074	372,877	0	0
Transportation	3,369,875	8,359	2,269,564	0
General Government	3,169,369	409,861	0	0
Interest And Fiscal Charges	228,456	0	0	0
Total Governmental Activities	17,901,117	1,863,437	2,285,268	115,455
<u>Business-Type Activities:</u>				
Water	3,276,839	3,343,813	0	0
Sewer	3,950,308	5,476,860	0	0
Total Business-Type Activities	7,227,147	8,820,673	0	0
Total Activities	\$25,128,264	\$10,684,110	\$2,285,268	\$115,455

General Revenues:

- Property And Other Taxes Levied For:
 - General Purposes
 - Debt Service
 - Police
- Municipal Income Taxes Levied For
 - General Purposes
- Grants And Entitlements Not Restricted To Specific Programs
- Unrestricted Investment Earnings
- Other
- Transfers

Total General Revenues And Transfers

Change In Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End Of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$6,045,592)	\$0	(\$6,045,592)
(154,330)	0	(154,330)
(1,215,596)	0	(1,215,596)
(1,810,326)	0	(1,810,326)
(331,197)	0	(331,197)
(1,091,952)	0	(1,091,952)
(2,759,508)	0	(2,759,508)
(228,456)	0	(228,456)
<u>(13,636,957)</u>	<u>0</u>	<u>(13,636,957)</u>
0	66,974	66,974
0	1,526,552	1,526,552
<u>0</u>	<u>1,593,526</u>	<u>1,593,526</u>
<u>(13,636,957)</u>	<u>1,593,526</u>	<u>(12,043,431)</u>
1,312,523	0	1,312,523
209,682	0	209,682
217,542	0	217,542
12,281,635	0	12,281,635
4,434,696	0	4,434,696
742,365	0	742,365
174,219	20,839	195,058
(26,397)	26,397	0
<u>19,346,265</u>	<u>47,236</u>	<u>19,393,501</u>
5,709,308	1,640,762	7,350,070
<u>80,568,627</u>	<u>53,366,689</u>	<u>133,935,316</u>
<u>\$86,277,935</u>	<u>\$55,007,451</u>	<u>\$141,285,386</u>

CITY OF GAHANNA, OHIO

**Balance Sheet
Governmental Funds**

December 31, 2003

	<u>General</u>	<u>Capital Improvement</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Equity In Pooled Cash And Cash Equivalents	\$21,714,053	\$3,144,799	\$5,806,442	\$30,665,294
Cash And Cash Equivalents With Fiscal Agents	0	0	1,156,593	1,156,593
Receivables:				
Property And Other Local Taxes	1,502,579	0	456,949	1,959,528
Municipal Income Tax	3,536,065	0	0	3,536,065
Accounts	357,548	0	710	358,258
Special Assessments	4,220	0	0	4,220
Accrued Interest	115,147	0	0	115,147
Due From Other Governments	1,376,170	0	609,790	1,985,960
Materials And Supplies Inventory	173,752	0	0	173,752
Prepaid Items	74,850	0	3,621	78,471
Capital Leases Receivable	0	0	893,124	893,124
Total Assets	\$28,854,384	\$3,144,799	\$8,927,229	\$40,926,412
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts Payable	\$382,704	\$0	\$42,556	\$425,260
Contracts Payable	616,445	2,425	102,612	721,482
Accrued Wages	216,754	0	12,470	229,224
Matured Compensated Absences Payable	26,378	0	0	26,378
Retainage Payable	84,780	0	2,550	87,330
Due To Other Governments	52,652	0	4,262	56,914
Deferred Revenue	5,052,445	0	1,876,476	6,928,921
Total Liabilities	6,432,158	2,425	2,040,926	8,475,509
<u>Fund Balances:</u>				
Reserved For Encumbrances	6,621,052	691,365	1,740,445	9,052,862
Unreserved:				
Designated:				
Designated For Sick/Vacation Leave	1,308,346	0	0	1,308,346
Undesignated, Reported In:				
General Fund	14,492,828	0	0	14,492,828
Special Revenue Funds	0	0	3,664,385	3,664,385
Debt Service Funds	0	0	1,263,032	1,263,032
Capital Projects Funds	0	2,451,009	218,441	2,669,450
Total Fund Balances	22,422,226	3,142,374	6,886,303	32,450,903
Total Liabilities And Fund Balances	\$28,854,384	\$3,144,799	\$8,927,229	\$40,926,412

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Reconciliation Of Total Governmental Fund Balances To
Net Assets Of Governmental Activities**

December 31, 2003

Total Governmental Fund Balances	\$32,450,903
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land	12,947,298	
Construction In Progress	3,683,699	
Infrastructure	61,159,099	
Other Capital Assets	19,863,448	
Accumulated Depreciation	<u>(43,572,366)</u>	
Total		54,081,178

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

Municipal Income Taxes	2,478,836	
Property Taxes	116,662	
Other Local Taxes	11,984	
Accounts Receivable	11,463	
Intergovernmental	1,584,297	
Special Assessments	4,220	
Capital Leases	710,636	
Accrued Interest	<u>86,297</u>	
Total		5,004,395

Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (277,420)

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

Accrued Interest	(17,368)	
General Obligation Bonds	(2,300,000)	
Long-Term Notes	(1,388,798)	
Capital Leases Payable	(54,251)	
Compensated Absences	(1,135,932)	
Compensatory Time Payable	<u>(84,772)</u>	
Total		<u>(4,981,121)</u>

Net Assets of Governmental Activities	<u><u>\$86,277,935</u></u>
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See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Statement Of Revenues, Expenditures And Changes In Fund Balances
Governmental Funds**

For The Year Ended December 31, 2003

	<u>General</u>	<u>Capital Improvement</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$1,307,527	\$0	\$425,624	\$1,733,151
Municipal Income Taxes	12,381,265	0	0	12,381,265
Other Local Taxes	609,346	0	36,104	645,450
Intergovernmental	3,143,931	0	2,884,905	6,028,836
Charges For Services	831,134	0	0	831,134
Licenses And Permits	416,371	0	67,705	484,076
Fines And Forfeitures	371,978	0	36,880	408,858
Interest	656,068	0	0	656,068
Rent	117,068	0	110,444	227,512
Miscellaneous	146,583	0	22,229	168,812
Total Revenues	19,981,271	0	3,583,891	23,565,162
<u>Expenditures:</u>				
Current Operations And Maintenance:				
Security Of Persons And Property	5,043,635	0	745,174	5,788,809
Public Health	154,330	0	0	154,330
Leisure Time Activities	1,555,187	0	0	1,555,187
Community Environment	2,463,007	0	53,485	2,516,492
Basic Utility Services	135,082	0	345,325	480,407
General Government	2,231,658	0	200,718	2,432,376
Transportation	895,872	0	870,554	1,766,426
Capital Outlay	4,173,174	229,132	911,219	5,313,525
Debt Service:				
Principal Retirement	131,169	0	385,000	516,169
Interest And Fiscal Charges	89,980	0	140,857	230,837
Total Expenditures	16,873,094	229,132	3,652,332	20,754,558
Excess Of Revenues Over (Under) Expenditures	3,108,177	(229,132)	(68,441)	2,810,604
<u>Other Financing Sources (Uses):</u>				
Proceeds From Sale Of Fixed Assets	210,756	0	0	210,756
Transfers - In	0	450,600	1,351,861	1,802,461
Transfers - Out	(1,790,480)	0	(10,750)	(1,801,230)
Total Other Financing Sources (Uses)	(1,579,724)	450,600	1,341,111	211,987
Net Change In Fund Balance	1,528,453	221,468	1,272,670	3,022,591
Fund Balances At Beginning Of Year - Restated (See Note 3)	20,893,773	2,920,906	5,613,633	29,428,312
Fund Balances At End Of Year	\$22,422,226	\$3,142,374	\$6,886,303	\$32,450,903

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO
Reconciliation Of The Statement Of Revenues, Expenditures And Changes
In Fund Balances Of Governmental Funds To The Statement Of Activities
For the Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$3,022,591

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

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

Capital Outlay	5,969,161	
Depreciation	(3,141,628)	
		2,827,533

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

Proceeds from Sale of Fixed Assets	(210,756)	
Loss on Disposal of Capital Assets	(292,979)	
		(503,735)

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

General Obligation Bond Principal Payments	385,000	
Capital Lease Principal Payments	19,572	
Long-Term Note Principal Payments	111,597	
		516,169

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

Municipal Income Taxes	(99,630)	
Property Taxes	6,596	
Other Local Taxes	11,984	
Accounts Receivable	5,407	
Intergovernmental	149,149	
Special Assessments	(2,230)	
Capital Leases	(85,913)	
Interest	86,297	
		71,660

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

Net Decrease in Accrued Interest		2,381
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Some items reported as expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

Increase in Compensated Absences	(126,024)	
Increase in Compensatory Time Payable	(84,772)	
Increase in Due to Other Governments	(16,495)	
		(227,291)

Change in Net Assets of Governmental Activities		\$5,709,308
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See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

General Fund

**Statement Of Revenues, Expenditures And Changes In Fund Balance - Budget And Actual
(Non-GAAP Budgetary Basis)**

For The Year Ended December 31, 2003

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Budgetary Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues:</u>				
Property Taxes	\$1,276,492	\$1,276,492	\$1,307,527	\$31,035
Municipal Income Taxes	11,437,413	12,769,273	12,179,359	(589,914)
Other Local Taxes	633,445	714,497	621,950	(92,547)
Intergovernmental	2,831,677	2,887,175	3,002,646	115,471
Charges For Services	1,742,072	1,872,738	812,504	(1,060,234)
Licenses And Permits	440,593	456,171	416,371	(39,800)
Fines And Forfeitures	350,219	379,711	373,332	(6,379)
Interest	582,830	545,920	727,787	181,867
Rent	99,900	99,900	101,144	1,244
Miscellaneous	152,722	121,106	163,303	42,197
Total Revenues	19,547,363	21,122,983	19,705,923	(1,417,060)
<u>Expenditures:</u>				
Current Operations And Maintenance:				
Security Of Persons And Property	5,775,978	5,790,173	5,389,519	400,654
Public Health	165,000	165,000	154,330	10,670
Leisure Time Activities	1,426,962	1,583,962	1,462,295	121,667
Community Development	4,414,268	4,379,518	4,163,077	216,441
Basic Utility	1,286,824	1,286,824	170,874	1,115,950
General Government	4,381,510	4,499,910	4,093,394	406,516
Transportation	1,467,826	1,452,491	1,308,676	143,815
Capital Outlay	6,045,659	7,914,249	7,849,778	64,471
Debt Service:				
Principal Retirement	111,597	111,597	111,597	0
Interest And Fiscal Charges	79,521	79,521	79,521	0
Total Expenditures	25,155,145	27,263,245	24,783,061	2,480,184
Excess Of Revenues Over (Under) Expenditures	(5,607,782)	(6,140,262)	(5,077,138)	1,063,124
<u>Other Financing Sources (Uses):</u>				
Proceeds From Sale Of Fixed Assets	0	500	210,756	210,256
Transfers - In	513,922	526,000	506,900	(19,100)
Transfers - Out	(1,628,680)	(1,790,480)	(1,790,480)	0
Total Other Financing Sources (Uses)	(1,114,758)	(1,263,980)	(1,072,824)	191,156
Net Change In Fund Balance	(6,722,540)	(7,404,242)	(6,149,962)	1,254,280
Fund Balance At Beginning Of Year	13,181,799	13,181,799	13,181,799	0
Prior Year Encumbrances	6,729,806	6,729,806	6,729,806	0
Fund Balance At End Of Year	\$13,189,065	\$12,507,363	\$13,761,643	\$1,254,280

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Statement Of Fund Net Assets
Enterprise Funds**

December 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Assets:</u>			
<u>Current Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$6,644,065	\$7,036,905	\$13,680,970
Receivables:			
Accounts	726,300	1,250,568	1,976,868
Special Assessments	2,794	0	2,794
Materials and Supplies Inventory	14,764	14,764	29,528
Prepaid Items	4,780	4,780	9,560
Total Current Assets	7,392,703	8,307,017	15,699,720
<u>Non-Current Assets:</u>			
Land and Construction in Progress	44,135	100,837	144,972
Depreciable Capital Assets, Net	26,245,807	15,509,762	41,755,569
Total Non-Current Assets	26,289,942	15,610,599	41,900,541
Total Assets	33,682,645	23,917,616	57,600,261
<u>Liabilities:</u>			
<u>Current Liabilities:</u>			
Accounts Payable	5,931	1,656	7,587
Contracts Payable	1,670	77,704	79,374
Accrued Wages	7,484	7,484	14,968
Vacation Payable	12,749	12,749	25,498
Compensatory Time Payable	1,304	1,305	2,609
Due to Other Governments	534,132	719,757	1,253,889
Accrued Interest Payable	4,764	2,436	7,200
General Obligation Bonds Payable	250,000	105,000	355,000
OPWC Loans Payable	0	9,195	9,195
Total Current Liabilities	818,034	937,286	1,755,320
<u>Long-Term Liabilities (Net Of Current Portion):</u>			
General Obligation Bonds Payable	745,000	0	745,000
OPWC Loans Payable	0	92,490	92,490
Total Long-Term Liabilities	745,000	92,490	837,490
Total Liabilities	1,563,034	1,029,776	2,592,810
<u>Net Assets:</u>			
Invested in capital assets, net of related debt	25,294,942	15,403,914	40,698,856
Unrestricted	6,824,669	7,483,926	14,308,595
Total Net Assets	\$32,119,611	\$22,887,840	\$55,007,451

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Statement Of Revenues, Expenses And Changes In Fund Net Assets
Enterprise Funds**

For The Year Ended December 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Operating Revenues:</u>			
Charges for Services	\$3,343,813	\$5,476,860	\$8,820,673
Miscellaneous	20,839	0	20,839
Total Operating Revenues	3,364,652	5,476,860	8,841,512
<u>Operating Expenses:</u>			
Salaries	235,260	235,286	470,546
Fringe Benefits	91,930	91,925	183,855
Purchased Services	195,626	308,573	504,199
Materials And Supplies	2,036,681	2,776,665	4,813,346
Depreciation	597,857	353,717	951,574
Other Operating Expenses	55,601	170,216	225,817
Total Operating Expenses	3,212,955	3,936,382	7,149,337
Operating Income	151,697	1,540,478	1,692,175
<u>Non Operating Expenses:</u>			
Interest And Fiscal Charges	(63,884)	(13,926)	(77,810)
Income Before Contributions And Transfers	87,813	1,526,552	1,614,365
Capital Contributions	0	27,628	27,628
Transfers - Out	(923)	(308)	(1,231)
Change In Net Assets	86,890	1,553,872	1,640,762
Net Assets At Beginning Of Year - Restated (See Note 3)	32,032,721	21,333,968	53,366,689
Net Assets At End Of Year	\$32,119,611	\$22,887,840	\$55,007,451

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Statement Of Cash Flows
Enterprise Funds**

For The Year Ended December 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Increases (decreases) In Cash And Cash Equivalents:</u>			
<u>Cash Flows From Operating Activities:</u>			
Cash Received From Customers	\$3,340,539	\$5,421,062	\$8,761,601
Cash Payments For Personal Services	(333,602)	(333,617)	(667,219)
Cash Payments To Suppliers For Goods And Services	(1,706,510)	(2,299,220)	(4,005,730)
Cash Payments For Other Operating Expenses	(93,125)	(195,162)	(288,287)
Other Operating Revenues	20,839	0	20,839
Net Cash Provided By Operating Activities	<u>1,228,141</u>	<u>2,593,063</u>	<u>3,821,204</u>
<u>Cash Flows From Noncapital Financing Activities:</u>			
Transfers To Other Funds	(923)	(308)	(1,231)
<u>Cash Flows From Capital And Related Financing Activities:</u>			
Acquisition Of Capital Assets	(112,294)	(214,416)	(326,710)
Principal Paid On General Obligation Bonds	(240,000)	(95,000)	(335,000)
Principal Paid On OPWC Loans	0	(8,881)	(8,881)
Principal Paid On Capital Leases	(8,498)	(8,499)	(16,997)
Interest And Fiscal Charges Paid On Capital Leases	(267)	(268)	(535)
Interest And Fiscal Charges Paid On General Obligation Bonds	(64,077)	(10,018)	(74,095)
Interest And Fiscal Charges Paid On OPWC Loans	0	(3,793)	(3,793)
Net Cash Used For Capital And Related Financing Activities	<u>(425,136)</u>	<u>(340,875)</u>	<u>(766,011)</u>
Net Increase In Cash And Cash Equivalents	802,082	2,251,880	3,053,962
Cash And Cash Equivalents At Beginning Of Year	<u>5,841,983</u>	<u>4,785,025</u>	<u>10,627,008</u>
Cash And Cash Equivalents At End Of Year	<u><u>\$6,644,065</u></u>	<u><u>\$7,036,905</u></u>	<u><u>\$13,680,970</u></u>

(continued)

CITY OF GAHANNA, OHIO

**Statement Of Cash Flows
Enterprise Funds**

For The Year Ended December 31, 2003

(Continued)

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities:</u>			
Operating Income	\$151,697	\$1,540,478	\$1,692,175
<u>Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By (Used For) Operating Activities:</u>			
Depreciation	597,857	353,717	951,574
Changes In Assets And Liabilities:			
Increase In Accounts Receivable	(3,062)	(55,798)	(58,860)
Increase In Prepaid Items	(1,493)	(1,493)	(2,986)
Increase In Materials And Supplies	(17)	(17)	(34)
Increase In Special Assessments Receivable	(212)	0	(212)
Decrease In Accounts Payable	(201)	(490)	(691)
Increase (Decrease) In Contracts Payable	(34,098)	65,573	31,475
Increase In Accrued Wages Payable	1,824	1,824	3,648
Increase In Due To Other Governments	530,718	704,140	1,234,858
Decrease In Vacation Payable	(16,176)	(16,176)	(32,352)
Increase In Compensatory Time Payable	1,304	1,305	2,609
<u>Net Cash Provided By Operating Activities</u>	<u>\$1,228,141</u>	<u>\$2,593,063</u>	<u>\$3,821,204</u>

Noncash Capital Financing Activities:

For the year ended December 31, 2003, the City's sewer enterprise fund received sewer lines that were paid for from the General Fund. The sewer lines were recorded as capital assets and capital contributions in the respective funds. The value of the sewer lines was \$27,628.

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

**Statement Of Fiduciary
Assets And Liabilities
Agency Funds**

December 31, 2003

Assets:

Equity In Pooled Cash And Cash Equivalents	\$192,771
Cash and Cash Equivalents:	
In Segregated Accounts	740,740
Receivables:	
Accounts	<u>33,446</u>
<i>Total Assets</i>	<u><u>\$966,957</u></u>

Liabilities:

Undistributed Assets	\$774,186
Deposits Held And Due To Others	<u>192,771</u>
<i>Total Liabilities</i>	<u><u>\$966,957</u></u>

See Accompanying Notes to the Basic Financial Statements

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements

For The Year Ended December 31, 2003

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

THE REPORTING ENTITY

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the City is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. The City has no component units.

The City is a member of the Central Ohio Health Care Consortium (the "Pool"), a risk sharing pool which provides health insurance. The Pool, which commenced business on January 1, 1992, has twelve members consisting of various cities, villages and townships. The members originally entered into an irrevocable agreement to remain a member of the Pool for a minimum of three years. This agreement was renewed for an additional three years on January 1, 2001. The Pool is governed by a Board of Directors consisting of one director appointed by each member. The Board elects a chairman, a vice chairman and a secretary. The Board is responsible for its own financial matters and the Pool maintains its own books of account. Budgeting and financing of the Pool is subject to the approval of the Board. The City has no explicit and measurable equity interest in the Pool. The City has no ongoing financial responsibility other than the three year minimum membership. See Note 12.

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PRESENTATION

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND ACCOUNTING

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

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIDUCIARY FUNDS

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

MEASUREMENT FOCUS

A. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

B. FUND FINANCIAL STATEMENTS

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

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

BASIS OF ACCOUNTING

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES - EXCHANGE AND NON-EXCHANGE TRANSACTION

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

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

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

DEFERRED REVENUES

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

EXPENSES/EXPENDITURES

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BUDGETS AND BUDGETARY ACCOUNTING

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. 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 set forth in the financial statements represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

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

CASH AND CASH EQUIVALENTS

To improve cash management, cash received by the City is pooled. Monies for all funds, except the Mayor's Court agency fund, are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "Equity In Pooled Cash And Cash Equivalents" on the financial statements. The City also has permissive motor vehicle license money which is held by the Franklin County Engineer as agent and distributed to the City for approved street projects. The balance in this account is presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents". The Mayor's Court has its own checking account for the collection and distribution of court fines and forfeitures and is presented on the Statement of Fiduciary Assets and Liabilities as "Cash and Cash Equivalents in Segregated Accounts".

During the year, investments were limited to certificates of deposit, U.S. Treasury Notes, Federal Home Loan Bank Bonds, Federal Home Loan Mortgage Corporation Bonds, Federal National Mortgage Corporation Bonds, Federal Farm Credit Bank Bonds, Nationwide Platinum Note, Mutual Funds, and STAROhio. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost. Mutual funds are reported at fair value which is determined by the mutual fund's current share price.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2003.

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$656,068, which includes \$413,232 assigned from other funds.

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

MATERIALS AND SUPPLIES INVENTORY

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) 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.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

COMPENSATED ABSENCES

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

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employees who have accumulated unpaid leave are paid. In the proprietary funds, the vacation and compensatory time portion of compensated absences is reported as a fund liability.

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 fund financial statements.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, claims, contractually required pension contributions and compensated absences that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long-term notes, bonds, and capital leases are recognized as liabilities on the governmental fund financial statements when due.

CONTRIBUTIONS OF CAPITAL

Contributions of capital in enterprise funds represent the construction and transfer of capital assets between governmental and business type activities.

RESERVES OF FUND BALANCE

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

FUND DESIGNATIONS

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

INTERFUND TRANSACTIONS

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

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

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

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 sewer and 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 nonoperating.

ESTIMATES

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

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

CHANGES IN ACCOUNTING PRINCIPLES

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus", Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. Fiduciary funds are reported by type.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

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

The government-wide financial statements split the City's programs between governmental and business-type activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 only applies when there are significant perspective differences that prevent an entity from associating the estimated revenues and appropriations from its legally adopted budget to the major revenue sources and functional expenditures that are reported in the general and major special revenue funds. This statement did not apply to the City for 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

The City had a capital asset valuation completed and has also implemented a new capital asset policy which increases the capitalization threshold for capital assets from \$1,000 to \$5,000.

RESTATEMENT OF FUND BALANCE

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Capital Improvement</u>
Fund Balances December 31, 2002	\$20,810,237	\$2,920,906
GASB Interpretation No. 6	<u>83,536</u>	<u>0</u>
Adjusted Fund Balances December 31, 2002	<u><u>\$20,893,773</u></u>	<u><u>\$2,920,906</u></u>

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

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

	<u>Nonmajor</u>	<u>Total</u>	
Fund Balances			
December 31, 2002	\$5,728,386	\$29,459,529	
Fund Reclassifications	(123,135)	(123,135)	
GASB Interpretation No. 6	<u>8,382</u>	<u>91,918</u>	
Adjusted Fund Balance,			
December 31, 2002	<u>\$5,613,633</u>	29,428,312	
 GASB 34 Adjustments:			
Deferred Assets:			
Delinquent Property Taxes		110,066	
Accounts Receivable		5,346	
Special Assessments		6,450	
Municipal Income Tax		2,578,466	
Due From Other Governments		1,435,148	
Capital Leases Receivable		797,259	
Capital Assets, Net		51,757,380	
Intergovernmental Payables		(260,925)	
Accrued Interest Payable		(19,749)	
Long-Term Liabilities		<u>(5,269,126)</u>	
Governmental Activities,			
Net Assets December 31, 2002		<u>\$80,568,627</u>	
		Business-Type	
	<u>Water</u>	<u>Sewer</u>	<u>Activities</u>
Fund Equity December 31, 2002	\$17,994,057	\$19,502,440	\$37,496,497
Capital Assets, Net	<u>14,038,664</u>	<u>1,831,528</u>	<u>15,870,192</u>
Adjusted Net Assets,			
December 31, 2002	<u>\$32,032,721</u>	<u>\$21,333,968</u>	<u>\$53,366,689</u>

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (Continued)

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

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General Fund is as follows:

	Net Change In Fund Balance
GAAP Basis	<u>General</u> \$1,528,453
<u>Increases (decreases) Due To:</u>	
Revenue Accruals	(290,657)
Expenditure Accruals	(326,480)
Encumbrances Outstanding At Year-End (Budget Basis)	(7,583,487)
Change In Fair Value Of Investments - 2002	148,747
Change In Fair Value Of Investments - 2003	(133,438)
Transfers	506,900
Budget Basis	<u><u>(\$6,149,962)</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year-end, the carrying amount of the City's deposits was \$7,873,448, and the bank balance was \$7,896,810. Of the bank balance, \$2,601,157 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized. Although the balance was collateralized by securities held by the financial institutions' trust departments in the City's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 2	Unclassified	Carrying/ Fair Value
U.S. Treasury Notes	\$111,375	\$0	\$111,375
Federal Home Loan Bank Bonds	2,739,460	0	2,739,460
Federal Home Loan Mortgage Corp. Bonds	6,828,983	0	6,828,983
Federal National Mortgage Corp. Bonds	2,331,074	0	2,331,074
Federal Farm Credit Bank Bonds	247,769	0	247,769
Nationwide Platinum Note	1,005,695	0	1,005,695
Mutual Funds	0	1,801,067	1,801,067
STAROhio	0	23,497,497	23,497,497
Total Investments	<u>\$13,264,356</u>	<u>\$25,298,564</u>	<u>\$38,562,920</u>

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in *GASB Statement No. 9*. A reconciliation between classifications of cash and investments on the basic financial statements and the classifications according to *GASB Statement No. 3* is as follows:

	Cash and Cash Equivalents/Deposits	Investment
<i>GASB Statement No. 9</i>	\$46,436,368	\$0
Investments:		
U.S. Treasury Notes	(111,375)	111,375
Federal Home Loan Bank Bonds	(2,739,460)	2,739,460
Federal Home Loan Mortgage Corp. Bonds	(6,828,983)	6,828,983
Federal National Mortgage Corp. Bonds	(2,331,074)	2,331,074
Federal Farm Credit Bank Bonds	(247,769)	247,769
Nationwide Platinun Note	(1,005,695)	1,005,695
Mutual Funds	(1,801,067)	1,801,067
STAROhio	(23,497,497)	23,497,497
<i>GASB Statement No. 3</i>	\$7,873,448	\$38,562,920

NOTE 6 - MUNICIPAL INCOME TAX

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

NOTE 7 - PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003 on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2004 with real property taxes.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 7 - PROPERTY TAX (Continued)

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$758,269,860
Public Utility Property	11,719,060
Tangible Personal	44,144,331
Total Property Taxes	<u>\$814,133,251</u>

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Gahanna. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003, consisted of taxes, charges for services, intergovernmental receivables arising from grants, entitlements or shared revenues, special assessments and interest on investments. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Special assessments expected to be collected in more than one year for the City amount to \$2,110. The City has \$155 delinquent special assessments at December 31, 2003.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 8 – RECEIVABLES (Continued)

A summary of intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amount</u>
Local Government	\$895,590
Local Government Revenue Assistance	80,989
Liquor Permit	30,055
DARE Grant	15,704
Estate Taxes	223,969
Homestead And Rollback	138,987
Gahanna Jefferson Local School District	300
Gasoline Tax	322,985
Permissive Tax	122,703
Motor Vehicle License Tax	137,286
United States Post Office	13,500
Bullet Proof Vest Partnership Grant	3,892
Total Intergovernmental Receivable	<u>\$1,985,960</u>

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	Restated Balance At 12/31/2002	Additions	Deletions	Balance At 12/31/2003
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$12,960,915	\$317,460	(\$331,077)	\$12,947,298
Construction in Progress	3,026,430	1,142,538	(485,269)	3,683,699
Total Capital Assets Not Being Depreciated	<u>15,987,345</u>	<u>1,459,998</u>	<u>(816,346)</u>	<u>16,630,997</u>
Depreciable Capital Assets:				
Buildings	8,614,057	120,618	0	8,734,675
Improvements Other Than Buildings	4,113,876	602,391	0	4,716,267
Machinery and Equipment	3,195,237	979,260	(201,687)	3,972,810
Vehicles	2,340,742	279,678	(180,724)	2,439,696
Infrastructure:				
Bridges And Culverts	3,813,621	205,885	0	4,019,506
Sidewalks	2,908,919	0	0	2,908,919
Streets And Curbs	37,905,934	2,479,558	(1,711,365)	38,674,127
Street Lighting	1,727,058	0	0	1,727,058
Storm Sewer	8,926,930	327,042	0	9,253,972
Traffic Control Lighting	4,575,517	0	0	4,575,517
Total Depreciable Capital Assets	<u>78,121,891</u>	<u>4,994,432</u>	<u>(2,093,776)</u>	<u>81,022,547</u>
Total Depreciable Capital Assets At Historical Cost	<u>94,109,236</u>	<u>6,454,430</u>	<u>(2,910,122)</u>	<u>97,653,544</u>
Less Accumulated Depreciation:				
Buildings	(1,753,138)	(158,034)	0	(1,911,172)
Improvements Other Than Buildings	(1,688,760)	(180,488)	0	(1,869,248)
Machinery and Equipment	(1,318,445)	(295,836)	70,703	(1,543,578)
Vehicles	(1,504,274)	(207,068)	139,050	(1,572,292)
Infrastructure:				
Bridges And Culverts	(339,165)	(59,049)	0	(398,214)
Sidewalks	(1,789,177)	(103,398)	0	(1,892,575)
Streets And Curbs	(29,160,849)	(1,478,646)	1,711,365	(28,928,130)
Street Lighting	(985,288)	(91,371)	0	(1,076,659)
Storm Sewer	(1,955,598)	(132,700)	0	(2,088,298)
Traffic Control Lighting	(1,857,162)	(435,038)	0	(2,292,200)
Total Accumulated Depreciation	<u>(42,351,856)</u>	<u>(3,141,628)</u>	<u>1,921,118</u>	<u>(43,572,366)</u>
Depreciable Capital Assets, Net	<u>35,770,035</u>	<u>1,852,804</u>	<u>(172,658)</u>	<u>37,450,181</u>
Governmental Activities Capital Assets, Net	<u>\$51,757,380</u>	<u>\$3,312,802</u>	<u>(\$989,004)</u>	<u>\$54,081,178</u>

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 9 - CAPITAL ASSETS (Continued)

	Restated Balance At 12/31/2002	Additions	Deletions	Balance At 12/31/2003
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land	\$0	\$39,210	\$0	\$39,210
Construction in Progress	205,524	79,859	(179,621)	105,762
Total Capital Assets, Not Being Depreciated	205,524	119,069	(179,621)	144,972
Depreciable Capital Assets:				
Buildings	991,000	0	0	991,000
Machinery and Equipment	492,685	49,775	(1,760)	540,700
Infrastructure:				
Water Lines	38,471,922	150,285	0	38,622,207
Sewer Lines	22,398,947	214,830	0	22,613,777
Total Depreciable Capital Assets	62,354,554	414,890	(1,760)	62,767,684
Total Capital Assets At Historical Cost	62,560,078	533,959	(181,381)	62,912,656
Less Accumulated Depreciation:				
Buildings	(218,020)	(27,141)	0	(245,161)
Machinery and Equipment	(135,701)	(26,821)	1,760	(160,762)
Infrastructure:				
Water Lines	(12,604,860)	(566,820)	0	(13,171,680)
Sewer Lines	(7,103,720)	(330,792)	0	(7,434,512)
Total Accumulated Depreciation	(20,062,301)	(951,574)	1,760	(21,012,115)
Depreciable Capital Assets, Net	42,292,253	(536,684)	0	41,755,569
Business-Type Activities Capital Assets, Net	\$42,497,777	(\$417,615)	(\$179,621)	\$41,900,541

Depreciation expense was charged to governmental programs as follows:

Security of Person And Property	\$155,965
Leisure Time Activities	145,691
Community Development	129,464
Transportation	1,860,699
General Government	660,888
Basic Utility Service	188,921
Total Depreciation Expense	\$3,141,628

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. Gahanna's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, Gahanna's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

Gahanna's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$ 359,344, \$ 309,093, and \$ 427,899 respectively; 88.09 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$7,705 made by Gahanna and \$4,834 made by the plan members.

B. OHIO POLICE AND FIRE PENSION FUND

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while Gahanna is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. Gahanna's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$378,273, \$368,521, and \$351,047 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 76.82 percent has been contributed for 2003 with the remainder being reported as a liability.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$210,137. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. OHIO POLICE AND FIRE PENSION FUND

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

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

Gahanna's actual contributions for 2003 that were used to fund postemployment benefits were \$249,499 for police. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 12 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

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

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

B. DEFERRED COMPENSATION PLAN

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

C. HEALTH CARE BENEFITS

On January 1, 1992, the City joined the Central Ohio Health Care Consortium, a risk-sharing pool, which provides employee health care benefits for all full-time employees who wish to participate in the plan. The pool consists of twelve political subdivisions who pool risk for basic hospital, surgical and prescription drug coverage. The City pays monthly contributions to the Consortium, which are used to cover claims and administrative costs, and to purchase excess loss insurance for the plan. The Consortium has entered into an agreement for individual and aggregate excess loss coverage with a commercial insurance carrier. The individual excess loss coverage has been structured to indemnify the Plan for medical claims paid for an individual in excess of \$150,000 per claim per year, with an individual lifetime maximum of \$2,000,000. The aggregate excess loss coverage has been structured to indemnify the Plan for aggregate claims paid in excess of \$10,220,020 to a maximum of \$1,000,000 annually. In the event that the losses of the Consortium in any year exceeds amounts paid to the Consortium, together with all stop-loss, reinsurance and other coverage then in effect, then the payment of all uncovered losses shall revert to and be the sole obligation of the political subdivision against which the claim was made.

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

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

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

General capital assets consisting of equipment have been capitalized in the amount of \$101,327. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in 2003 totaled \$19,572 in the governmental funds and \$16,997 in the proprietary funds.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

The assets acquired through capital leases as of December 31, 2003, are as follows:

	Asset Value	Accumulated Depreciation	Net Book Value
Copier Equipment	\$101,327	\$61,744	\$39,583

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003.

Year Ending December 31,	Payments
2004	\$30,031
2005	30,031
2006	4,960
Total	65,022
Less: Amount representing Interest	(10,771)
Present Value of Minimum Lease Payment	\$54,251

NOTE 14 - OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS

A. BONDED DEBT AND OTHER LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2003, was as follows:

Types / Issues	Balance 12/31/02	Issued	Retired	Balance 12/31/03	Due Within One Year
<u>Business-Type Activities</u>					
<u>General Obligation Bonds</u>					
Water Fund					
1991 - Star Bank Series 6.10%	\$175,000	\$0	\$85,000	\$90,000	\$90,000
1994 - Star Bank Series 4.90%	1,060,000	0	155,000	905,000	160,000
Total Water Fund	1,235,000	0	240,000	995,000	250,000
Sewer Fund					
1991 - Star Bank Series 6.10%	200,000	0	95,000	105,000	105,000
Total General Obligation Bonds	1,435,000	0	335,000	1,100,000	355,000
<u>Other Long-Term Obligations</u>					
Capital Lease	16,997	0	16,997	0	0
OPWC Loan 3.5 %	110,566	0	8,881	101,685	9,195
Total Business-Type Activities	\$1,562,563	\$0	\$360,878	\$1,201,685	\$364,195

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

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

Types / Issues	Balance 12/31/02	Issued	Retired	Balance 12/31/03	Due Within One Year
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1994 - Star Bank Series 4.60%	\$2,685,000	\$0	\$385,000	\$2,300,000	\$410,000
<u>Long-Term Notes</u>					
1999 - McCorkle Park variable	215,200	0	107,600	107,600	107,600
1998 - Post Office Building Notes 6.00%	1,285,195	0	3,997	1,281,198	1,281,198
Total Long-Term Notes	<u>1,500,395</u>	<u>0</u>	<u>111,597</u>	<u>1,388,798</u>	<u>1,388,798</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences	1,009,908	551,469	425,445	1,135,932	438,781
Capital Lease	73,823	0	19,572	54,251	22,804
Total Other Long-Term Obligations	<u>1,083,731</u>	<u>551,469</u>	<u>445,017</u>	<u>1,190,183</u>	<u>461,585</u>
Total Governmental Activities	<u>\$5,269,126</u>	<u>\$551,469</u>	<u>\$941,614</u>	<u>\$4,878,981</u>	<u>\$2,260,383</u>

The City's overall legal debt margin was \$84,447,023, with an unvoted debt margin of \$43,740,361 at December 31, 2003.

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

Year	Business-Type Activities					
	Water General		Sewer General		Sewer OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$250,000	\$49,837	\$105,000	\$3,465	\$9,195	\$3,479
2005	175,000	37,651	0	0	9,519	3,155
2006	180,000	27,710	0	0	9,856	2,818
2007	190,000	17,162	0	0	10,204	2,471
2008	200,000	5,850	0	0	10,564	2,110
2009-2013	0	0	0	0	52,347	4,686
Totals	<u>\$995,000</u>	<u>\$138,210</u>	<u>\$105,000</u>	<u>\$3,465</u>	<u>\$101,685</u>	<u>\$18,719</u>

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

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

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

<i>Year</i>	<i>Governmental Activities</i>			
	<i>General Obligation Bonds</i>		<i>Long-Term Notes</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2004	\$410,000	\$119,038	\$1,388,798	\$13,323
2005	430,000	95,933	0	0
2006	460,000	71,005	0	0
2007	490,000	43,923	0	0
2008	510,000	14,918	0	0
Totals	\$2,300,000	\$344,817	\$1,388,798	\$13,323

B. GENERAL OBLIGATION BONDS

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

C. ENTERPRISE FUND GENERAL OBLIGATION BONDS

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

D. LONG-TERM NOTES

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

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

E. OHIO PUBLIC WORKS COMMISSION (OPWC) LOANS

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

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

F. COMPENSATED ABSENCES / CAPITAL LEASES

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

G. HEALTHCARE FACILITIES BONDS

The City has one outstanding issue of Healthcare facilities bonds in the amount of \$3,080,000 at December 31, 2003 for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing instruments.

NOTE 15 - CONSTRUCTION COMMITMENTS

The City has entered into various contracts for the construction and acquisition of capital assets. At December 31, 2003, the significant outstanding construction commitments were:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance At 12/31/03</u>
Buckeye Cement Contractors	\$68,710	\$64,110	\$4,600
Burgess And Nipple, Inc.	88,861	70,663	18,198
Complete General Construction	624,707	613,530	11,177
EMH&T	153,900	40,796	113,104
Maien And Jenkins	226,390	217,334	9,056
Miller Pavement Construction	649,237	512,999	136,238
Moody / Nolan LTD	87,006	65,560	21,446
Nickolas Savko And Sons	574,849	544,229	30,620
The Shelly Company	393,483	367,123	26,360
Total	<u>\$2,867,143</u>	<u>\$2,496,344</u>	<u>\$370,799</u>

NOTE 16 - RISK MANAGEMENT

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

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 17 – INTERFUND ACTIVITY

Transfers made during the year ended December 31, 2003 were as follows:

		Transfers To		
		Capital	All Other	
		Improvements	Nonmajor Funds	Total
Transfers From	General	\$450,600	\$1,339,880	\$1,790,480
	Water	0	923	923
	Sewer	0	308	308
	All Other Nonmajor Funds	0	10,750	10,750
	Total	<u>\$450,600</u>	<u>\$1,351,861</u>	<u>\$1,802,461</u>

Transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The transfer from the Water and Sewer Funds to the General Bond Retirement Fund was made for payments related to debt. All transfers made in 2003 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 18 - UNDIVIDED INTEREST

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

NOTE 19 - OPERATING LEASES - LESSOR DISCLOSURE

The City has entered into a lease for land with the United States Postal Service. The City receives monthly payments in the amount of \$6,750. During 2003, the City received lease payments totaling \$81,000. The City will receive lease payments of \$6,750 a month until the end of the lease in February 2004.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 20 – CAPITAL LEASE RECEIVABLE

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

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

<u>Year Ending December 31,</u>	<u>Receipts</u>
2004	\$157,387
2005	134,120
2006	134,120
2007	134,121
2008	124,981
2009-2013	193,175
2014-2017	15,220
Total Lease Receivable	<u>\$893,124</u>

NOTE 21 - CONTINGENT LIABILITIES

A. LITIGATION

The City of Gahanna is party to various legal proceedings damages or injunctive relief generally incidental to its operations and pending projects. The City is a defendant in a civil action filed in U.S. District Court concerning fair housing that occurred in March, 1997. The ultimate disposition of this case, or any other such proceedings, is not presently determinable, but will not, in the opinion of the City Law Director, have a material adverse effect on the financial condition of the City.

B. FEDERAL AND STATE GRANTS

For the period January 1, 2003, to December 31, 2003, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

CITY OF GAHANNA, OHIO

Notes To The Basic Financial Statements
(Continued)

NOTE 22 – SUBSEQUENT EVENT

On February 27, 2004 the City retired the \$1,300,000 long-term note to Henry Yates for the purchase of the Post Office building.

On June 11, 2004 the City retired the \$538,000 long-term note to William McCorkle Jr. for the purchase of the McCorkle Park land.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

1445 Worthington Woods Boulevard
Suite B
Worthington, Ohio 43085

Telephone 614.846.1899
Facsimile 614.846.2799

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Gahanna, Franklin County, Ohio (the “City”) as of and for the year ended December 31, 2003, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 16, 2004. As disclosed in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments, GASB Statement No. 37, Basic Financial Statements for State and Local Governments: Omnibus, GASB Statement No. 38, Certain Financial Statement Note Disclosures and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, for the year ended December 31, 2003. In addition, the City had a change in accounting principle for its capitalization threshold for fixed assets as described in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated August 16, 2004.

Members of Council and Mayor
City of Gahanna

Compliance and Other Matters

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

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

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

Trimble, Julian & Grube, Inc.
August 16, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF GAHANNA

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2005**