



**Auditor of State
Betty Montgomery**

**CITY OF GALION
CRAWFORD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Galion
Crawford County
301 Harding Way East
Galion, Ohio 44833

To the Members of City Council:

We have audited the accompanying financial statements of the City of Galion, Crawford County, Ohio, (the City) as of and for the year ended December 31, 2003. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinion.

Ohio Administrative Code Section 117-2-03 (B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the accompanying financial statements and notes follow the basis of cash receipts and disbursements. This is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

The City's management made adjustments to reallocate certain expenditures recorded in the City's accounting ledgers. No support was provided to demonstrate that such adjustments resulted in expenditures being charged to the proper funds.

As described in Note 14, on August 9, 2004, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission has been appointed to oversee the financial affairs of the City.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves concerning reported expenditures as described in the second previous paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the City of Galion, Crawford County, Ohio, as of December 31, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, City Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 21, 2005

**CITY OF GALION
CRAWFORD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$3,229,233	\$65,484	\$38,234	\$0	\$3,332,951
Intergovernmental	506,077	979,716	4,983	0	1,490,776
Charges for Services	813,982	0	0	0	813,982
Fines, Licenses, and Permits	70,446	0	0	0	70,446
Investment Income	3,113	111	0	0	3,224
Rent	5,700	62,819	0	0	68,519
Contributions	1,086	1,800	0	1,229,250	1,232,136
Other	58,418	508,042	0	0	566,460
Total Cash Receipts	<u>4,688,055</u>	<u>1,617,972</u>	<u>43,217</u>	<u>1,229,250</u>	<u>7,578,494</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	3,660,842	587,214	0	0	4,248,056
Public Health Services	330,481	0	0	0	330,481
Leisure Time Activities	332,852	0	0	0	332,852
Community Environment	0	540,253	0	0	540,253
Transportation	0	1,443,122	0	0	1,443,122
General Government	1,979,878	0	922	0	1,980,800
Debt Service:					
Principal Payments	113,552	569,059	345,000	0	1,027,611
Interest Payments	20,658	15,913	44,055	0	80,626
Total Cash Disbursements	<u>6,438,263</u>	<u>3,155,561</u>	<u>389,977</u>	<u>0</u>	<u>9,983,801</u>
Total Receipts Over/(Under) Disbursements	<u>(1,750,208)</u>	<u>(1,537,589)</u>	<u>(346,760)</u>	<u>1,229,250</u>	<u>(2,405,307)</u>
Other Financing Receipts and (Disbursements):					
Other Financing Sources	112,571	0	0	0	112,571
Proceeds of Bonds	0	0	0	1,000,000	1,000,000
Proceeds of Notes	50,000	470,000	278,000	0	798,000
Operating Transfers-In	0	2,206,395	33,265	0	2,239,660
Operating Transfers-Out	(2,239,660)	0	0	0	(2,239,660)
Total Other Financing Receipts/(Disbursements)	<u>(2,077,089)</u>	<u>2,676,395</u>	<u>311,265</u>	<u>1,000,000</u>	<u>1,910,571</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(3,827,297)</u>	<u>1,138,806</u>	<u>(35,495)</u>	<u>2,229,250</u>	<u>(494,736)</u>
Fund Cash Balances, January 1	<u>2,061,627</u>	<u>(3,844,083)</u>	<u>512,233</u>	<u>0</u>	<u>(1,270,223)</u>
Fund Cash Balances, December 31	<u>(\$1,765,670)</u>	<u>(\$2,705,277)</u>	<u>\$476,738</u>	<u>\$2,229,250</u>	<u>(\$1,764,959)</u>
Reserves for Encumbrances, December 31	<u><u>\$325,199</u></u>	<u><u>\$20,460</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$345,659</u></u>

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

**CITY OF GALION
CRAWFORD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
Operating Cash Receipts:			
Charges for Services	\$10,898,445	\$1,275,548	\$12,173,993
Other	246,303	3,284	249,587
Total Operating Cash Receipts	11,144,748	1,278,832	12,423,580
Operating Cash Disbursements:			
Personal Services	2,029,639	0	2,029,639
Employee Fringe Benefits	1,106,483	0	1,106,483
Contractual Services	7,632,268	0	7,632,268
Materials and Supplies	841,423	0	841,423
Claims Expense	0	1,253,412	1,253,412
Capital Outlay	1,006,359	0	1,006,359
Total Operating Cash Disbursements	12,616,172	1,253,412	13,869,584
Operating Income/(Loss)	(1,471,424)	25,420	(1,446,004)
Non-Operating Cash Receipts:			
Proceeds from Notes	10,245,629	0	10,245,629
Investment Income	0	105	105
Total Non-Operating Cash Receipts	10,245,629	105	10,245,734
Non-Operating Cash Disbursements:			
Debt Service - Principal	10,310,389	0	10,310,389
Debt Service - Interest	541,359	0	541,359
Total Non-Operating Cash Disbursements	10,851,748	0	10,851,748
Net Receipts Over/(Under) Disbursements	(2,077,543)	25,525	(2,052,018)
Fund Cash Balances, January 1	1,536,105	66,486	1,602,591
Fund Cash Balances, December 31	(\$541,438)	\$92,011	(\$449,427)
Reserve for Encumbrances, December 31	\$817,117	\$0	\$817,117

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Galion, Crawford County, Ohio, (the "City") was incorporated in 1842 under the laws of the State of Ohio. The City's population is approximately 11,859 people within an area of about 5 square miles. The City now operates under a charter adopted January 1, 1986, which provides for a Council-Manager form of government.

The reporting entity consists of the (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City's component unit will not be included as a part of the accompanying financial statements since the City is reporting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with accounting principles generally accepted in the United States of America (See Note 1B).

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources, or (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or is obligated in some manner for the debt of the organization.

The primary government of the City of Galion includes public safety (police and fire protection), public services, health (including ambulance services), recreation and development. In addition, the City maintains and operates its own electric distribution, water, and sewer utility systems.

The Egbert M. Freese Foundation (the Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times shall be operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all the liabilities, all the assets of the Foundation shall be transferred to the City of Galion or its successor. It is intended that the Foundation shall allocate its funds in such a way that one-eighth of the income shall be used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the people of the City of Galion or to pay costs of improvements as shown on the City's then current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. The Foundation is a component unit of the City since the nature and significance of the Foundation's relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Since the City is reporting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with accounting principles generally accepted in the United States of America (See Note 1B), the Foundation will not be included as a part of the accompanying financial statements. The Foundation does not issue separate financial statements. The Foundation does receive quarterly account statements from the entity in charge of making their investments. To obtain the Foundation's statements, contact the Law Offices of Hottenroth, Garverick & Tilson Co., L.P.A., 126 S. Market Street, P.O. Box 477, Galion, Ohio 44833.

The City is a participant in two joint ventures. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) and the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV-2). These organizations are presented in Note 13 to the financial statements.

Health care services are provided by the Galion Community Hospital. The Court system is provided through Crawford County. The Hospital and Court are separate entities whose financial statements are not included herein, as they are not considered a component unit of the City.

The Galion City School District, located within the boundaries of the City of Galion, is a political subdivision of the State of Ohio. The District operates under the direction of an elected school board, which exercises its own budgetary, taxing and fiscal management authority. Accordingly, the Galion City School District is not considered a part of the City and is not considered a component unit of the City.

The Galion Public Library is an association library established under the rules of the Ohio State Library Board. Since the City is not responsible for authorizing budgets, supervising accounting functions and financing deficits, the library is not considered a component unit of the City.

B. Basis Of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the City chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with accounting principles generally accepted in the United States of America. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The City uses fund accounting to segregate cash and investments that are restricted as to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

Funds are classified into three categories: Governmental, Proprietary and Fiduciary. Funds within each major category are grouped by fund type in the financial statements. The City has no Fiduciary Fund Types.

Governmental Fund Types are those through which general governmental functions of the City are financed. The following are the City's Governmental Fund Types:

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

Special Revenue Funds – These funds are used to account for proceeds from specific sources (other than from trusts or for major capital projects) that are restricted to expenditures for specified purposes. The City had the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing City streets.

Debt Service Fund – These funds are used to account for the accumulation of resources for the payment of bonds and note indebtedness. The City has only the following Debt Service Fund:

Debt Retirement Fund – This fund receives voted property tax monies to fund matured debt payments for the library.

Capital Projects Funds – These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The City had the following significant Capital Projects Funds:

Cheshire Construction Fund – This fund receives note proceeds to make water line, sewer line, and roadway improvements in the Cheshire Estates area of Galion.

Freese Construction Fund – This fund receives contributions from the Freese Foundation to make specified City of Galion improvements.

Proprietary Fund Types are those used to account for the City's ongoing activities that are similar to those found in the private sector. The following are the City's Proprietary Fund Types:

Enterprise Funds – These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City had the following significant Enterprise Funds:

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

Water Operating Fund – This fund receives charges for services from residents to cover the cost of providing water service.

Water Improvement Fund – This fund receives transfers from the Water Operating Fund for special water improvements.

Sewer Operating Fund – This fund receives charges for services from residents to cover the cost of providing sewer service.

Sewer Improvement Fund – This fund receives transfers from the Sewer Operating Fund for special sewer improvements.

Electric Operating Fund – This fund receives charges for services from residents to cover the cost of providing electric service.

Electric Improvement Fund – This fund receives transfers from the Electric Operating Fund for special electric improvements.

Stormwater Fund – This fund receives charges for services from residents to cover the cost of providing stormwater service.

Internal Service Funds – These funds are used to account for the financing of goods and services provided by one department to other departments of the City on a cost reimbursement basis. The City has only the following Internal Service Fund:

Health Insurance Fund - This fund receives charges for services from other funds to cover the cost of the City's self insurance program.

D. Budgetary Process

All City funds are legally required to be budgeted and appropriated. The major documents prepared are the statement of fund activities, the certificate of estimated resources, and the appropriation ordinance. The statement of fund activities indicates the projected revenues and expenditures for those funds receiving tax monies. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations resolution is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund and department level.

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 budget amounts in Note 3 reflect the amounts on the certificate of estimated resources (there were no amendments) in effect at the time final appropriations were passed by City Council.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

A temporary appropriation ordinance to control expenditures or expenses, as appropriate, may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance may be amended during the year as new information becomes available provided that total appropriations do not exceed estimated resources. The budget amounts that appear in Note 3 represent the final appropriation resolution for that fund, including amounts automatically carried forward from prior years.

Encumbrances – The Ohio Revised Code requires the City to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The City did not encumber all commitments required by Ohio law.

A summary of 2003 budgetary activity appears in Note 3.

E. Property, Plant And Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the City's basis of accounting.

2. ACCOUNTABILITY AND COMPLIANCE

A. Legal Compliance

1. Budgetary expenditures exceeded appropriation authority as follows:

<u>Fund</u>	<u>Amount by which Expenditures Exceed Appropriations</u>
General Fund	\$ 3,405,083
Street/State Highway Funds	701,924
Airport Fund	280,639
CDBG Fund 402	430,903
CDBG Fund 403	100,473
Fire Pension Fund	94,475
Debt Service Fund	309,977
Water Fund	2,134,394
Sewer Fund	1,480,388
Electric Fund	6,660,180
Storm Water Fund	1,280,282
Health Insurance Fund	303,412

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

2. ACCOUNTABILITY AND COMPLIANCE (Continued)

A. Legal Compliance (Continued)

2. The following funds had cash deficit balances at December 31, 2003:

General Fund	\$ 1,765,670
Street Construction, Maintenance, and Repair Fund	2,724,888
Street Improvement Fund	530,214
CDBG Fund 403	271,652
Electric Fund	4,027,075
Airport Fund	240,157

3. Appropriations exceeded estimated resources at December 31, 2003, as follows:

Fund	Amount by which Appropriations Exceed Estimated Resources
Street/State Highway	\$ 2,806,983
Airport	85,246
Police Pension	563,084
Fire Pension	615,124
Debt Service	69,869
Electric	2,862,619
Health Insurance	346,052

4. In 2003, transfers of \$768,810 and \$922,585 were made from the General Fund to the Police Pension Fund and Fire Pension Fund, respectively, without authorization or approval from City Council.

B. Restatement of Fund Balance

The Veterans' Memorial Fund has been reclassified to properly reflect the activity of this fund on the City's financial statements as a special revenue fund. Previously, the City had treated the activity of the Veterans' Memorial Fund as an outside account and as of December 31, 2003, the entire balance of the account had been paid into the City's General Fund. Additionally, certain receipts intended for the City's Health Insurance Internal Service Fund were improperly deposited into this account.

Previous to 2003, the City paid \$56,508 to a monument vendor for the City's Veterans' Memorial monument. This expenditure was charged to the City's general government account, which was subsequently allocated to the General, Water, Sewer, and Electric funds. When the Veterans' Memorial account reimbursed the City for these payments, the reimbursement was posted entirely to the General Fund. As a result, the General Fund was reimbursed more than the amount charged to it, and the utility funds received no reimbursement although these funds shared in the cost.

The City's Debt Service fund balance has been restated to properly reflect the balance of the Library Improvement Bond Fund. This fund was understated due to the City paying other debt issues with levy proceeds intended to pay the Library Improvement Bonds.

These reclassifications had the following effect on the City's fund balances as previously reported:

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

2. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Restatement of Fund Balance (Continued)

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Debt Service</u>
Fund balance December 31, 2002	\$ 2,662,895	\$ (3,860,764)	\$ -	\$ 10,131
Veterans' Memorial Reclassification	(62,538)	16,681	-	-
Veterans' Memorial Reimbursement	(36,628)	-	-	-
Library Improvement Bond	<u>(502,102)</u>	<u>-</u>	<u>-</u>	<u>502,102</u>
Restated fund balance, December 31, 2002	<u>\$ 2,061,627</u>	<u>\$ (3,844,083)</u>	<u>\$ -</u>	<u>\$ 512,233</u>

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total</u>
Fund balance December 31, 2002	\$ 1,499,477	\$ 3,948	\$ 315,687
Veterans' Memorial Reclassification	-	62,538	16,681
Veterans' Memorial Reimbursement	36,628	-	-
Library Improvement Bond	<u>-</u>	<u>-</u>	<u>-</u>
Restated fund balance, December 31, 2002	<u>\$ 1,536,105</u>	<u>\$ 66,486</u>	<u>\$ 332,368</u>

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2003, follows:

<u>2003 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$5,352,000	\$4,850,626	(\$501,374)
Special Revenue	1,540,000	4,294,367	2,754,367
Debt Service	0	354,482	354,482
Capital Projects	0	2,229,250	2,229,250
Enterprise	11,775,000	21,390,377	9,615,377
Internal Service	600,000	1,278,937	678,937
Total	<u>\$19,267,000</u>	<u>\$34,398,039</u>	<u>\$15,131,039</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$5,598,039	\$9,003,122	(\$3,405,083)
Special Revenue	1,565,991	3,176,021	(1,610,030)
Debt Service	80,000	389,977	(309,977)
Capital Projects	0	0	0
Enterprise	12,772,773	24,285,037	(11,512,264)
Internal Service	950,000	1,253,412	(303,412)
Total	\$20,966,803	\$38,107,569	(\$17,140,766)

4. DEPOSITS AND INVESTMENTS

The City maintains a cash pool used by all funds.

Legal Requirements - State statutes require the classification of monies held by the City into three categories.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the municipality. 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.

Category 2 consists of "inactive" monies, those monies not required for use within the current period of designation of depositories. Inactive monies 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.

Category 3 consists of "interim" monies, 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 monies may be invested or deposited in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 enumerated above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

4. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
5. Bonds and other obligations of the State of Ohio; and
6. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State as to which there is no default of principal, interest, or coupons; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Obligations of the City.

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

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year-end, the carrying amount of the City's deposits was \$(2,214,386) and the bank balance was \$343,133. Of the bank balance, \$116,382 was covered by federal depository insurance and \$226,751 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

5. TAXES

Property Tax - Property taxes include amounts levied against all real property, public utility property, and tangible personal property (used in business) located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes were levied in 2003 after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. These taxes will be collected in and are intended to finance 2004 operations. Assessed values for real property taxes are established by State statute at 35% of appraised market value. All property is required to be revalued every six years. The last reappraisal was completed in 2000. The last triennial update was completed in 2003. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

5. TAXES (Continued)

Public utility real and tangible personal property taxes were levied in 2003 after October 1, 2003, on the assessed values as of December 31, 2002, the lien date. These taxes will be collected in and are intended to finance 2004 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for equipment and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

The Crawford County Treasurer collects property tax on behalf of all taxing districts within Crawford County, including the City of Galion. The Crawford County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2003 was \$7.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	
Agricultural	\$ 518,850
Residential	82,199,860
Commercial	16,424,970
Industrial	5,874,430
Public Utility Property	
Real	27,190
Personal	2,520,550
Tangible Personal Property	<u>16,738,184</u>
Total Assessed Value	<u>\$124,304,034</u>

City Income Tax - The City levies an income tax of 1.50% on the gross salaries, wages and other personal service compensation earned by residents of the City and to the earnings of nonresidents working within the City. Residents of the City are granted a 1.0% credit for taxes paid to other Ohio Municipalities. This tax also applies to the net income of businesses operating within the City. A portion of the City's income tax (.39%) is to be used exclusively for increased police protection services, increased fire protection services, fire suppression equipment and structures, and an ambulance subsidy. A .11% portion of the income tax is to be used exclusively for the purposes of recreation and acquisition of real estate.

The receipts of the City income tax and the administrative costs associated with their collection are accounted for in the General Fund. Income tax receipts, net of the related administrative costs, are disbursed and appropriated 100% to the General Fund in accordance with City Ordinance #86-5593, #89-5749, and #95-6139.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

6. INTERFUND TRANSFERS

Interfund transfers during 2003 consisted of the following:

<u>Fund Type</u>	<u>Transfer-in</u>	<u>Transfer-out</u>
General Fund	\$0	\$2,239,660
Special Revenue Funds	2,206,395	0
Debt Service Fund	33,265	0
Total	<u>\$2,239,660</u>	<u>\$2,239,660</u>

7. DEBT OBLIGATIONS

A listing of the changes in the debt of the City for the year ended December 31, 2003 follows:

	<u>Balance 1/01/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/03</u>
General Obligation Bonds:				
7.50% to 7.75% Library Bonds, due through 2010	\$465,000	\$0	\$45,000	\$420,000
OPWC Note:				
0% Ohio Public Works Commission Street Improvements Promissory Note, due through 2006	<u>77,490</u>	<u>0</u>	<u>29,059</u>	<u>48,431</u>
Total Governmental Debt	<u>\$542,490</u>	<u>\$0</u>	<u>\$74,059</u>	<u>\$468,431</u>

The City has pledged its full faith and credit as collateral for the above tax supported General Obligation Bonds and Note.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

7. DEBT OBLIGATIONS (Continued)

	<u>Balance 1/01/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/03</u>
Enterprise Debt:				
9.625% General Obligation WWTP Bonds, due through 2004	\$200,000	\$0	\$100,000	\$100,000
4.00% to 5.25% Revenue Obligation Electric (JV2) Improvement Bonds, due through 2021	2,579,067	0	93,889	2,485,178
0% Ohio Public Works Commission Cherry Street Sanitation Sewer Promissory Note, due through 2014	309,432	0	40,361	269,071
2% Ohio Water Development Authority Water Promissory Note, due through 2022	312,347	0	19,950	292,397
2% Ohio Water Development Authority Sewer Promissory Note, due through 2022	82,116	0	5,245	76,871
0% Ohio Public Works Commission Railroad Street Waterline Promissory Note, due through 2022	69,326	0	5,333	63,993
2% Ohio Water Development Authority WTP Promissory Note, due through 2032	<u>3,529,007</u>	<u>395,629</u>	<u>145,611</u>	<u>3,779,025</u>
Total Enterprise Debt	<u>7,081,295</u>	<u>395,629</u>	<u>410,389</u>	<u>7,066,535</u>
Total Long-Term Debt	<u>\$7,623,785</u>	<u>\$395,629</u>	<u>\$484,448</u>	<u>\$7,534,966</u>

The JV2 Revenue Bonds (See Note 13) are payable solely from the revenues of its municipal electric utility system. The City has pledged its full faith and credit as collateral for the other General Obligation Bonds. The Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA) notes are payable from the revenues derived from the operations of the respective funds (water or sewer fund).

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

7. DEBT OBLIGATIONS (Continued)

A summary of the City's future debt service requirements for long-term debt follows:

Future Payments <u>Due In</u>	<u>Governmental Debt</u>		<u>Enterprise Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$64,372	\$32,437	\$344,946	\$223,133
2005	69,373	29,063	251,397	197,385
2006	64,686	25,187	258,170	190,666
2007	60,000	20,925	264,989	183,977
2008	65,000	16,275	272,953	175,958
2009-2013	145,000	17,050	1,498,877	745,567
2014-2018	0	0	1,627,770	481,811
2019-2023	0	0	1,188,827	207,052
2024-2028	0	0	771,226	101,789
2029-2032	0	0	587,380	23,730
TOTAL	<u>\$468,431</u>	<u>\$140,937</u>	<u>\$7,066,535</u>	<u>\$2,531,068</u>

A summary of the short-term note activity for the year ended December 31, 2003 follows:

	<u>Interest Rate</u>	<u>Outstanding 1/01/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/03</u>
<u>General Fund</u>					
General Obligation:					
Park and Recreation Improvement	1.625%	\$ 300,000	\$ 275,000	\$ 300,000	\$ 275,000
Fire Truck Renovation	1.625%	75,000	50,000	75,000	50,000
<u>Special Revenue Fund</u>					
General Obligation:					
Airport	1.625%	140,000	120,000	140,000	120,000
Street Improvement	1.625%	400,000	350,000	400,000	350,000
<u>Capital Projects Fund</u>					
General Obligation:					
Cheshire	1.625%	0	1,000,000	0	1,000,000
<u>Proprietary Fund</u>					
General Obligation:					
Electric System Improvement	1.625%	5,500,000	5,500,000	5,500,000	5,500,000
Water System Improvement	1.625%	1,900,000	1,850,000	1,900,000	1,850,000
Sewer System Improvement	1.625%	1,500,000	1,500,000	1,500,000	1,500,000
Storm Water System Improvement	1.625%	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total Short-Term Notes		<u>\$10,815,000</u>	<u>\$11,645,000</u>	<u>\$10,815,000</u>	<u>\$11,645,000</u>

All of the above notes are bond anticipation notes. The electric system improvement notes are payable solely from the revenues of the City's electric system. All other notes are backed by the full faith and credit of the City. Although some of the enterprise fund notes are general obligations of the City, the practice has been to have the debt serviced by the revenues derived from the operations of the respective funds. The note payments are recorded in the fund that received the proceeds.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

8. LEASES

The City has entered into capital leases for equipment. Principal payments in 2003 totaled \$38,552 in the governmental funds. Principal payments of \$238,808 were also made in the enterprise funds and are included in contractual services.

The City entered into a capital lease to purchase electric fund equipment for \$171,643 in 2002. The money was placed in escrow in 2002. No equipment was ever purchased. The money was used to pay part of the \$238,808 calendar year 2003 enterprise fund capital lease principal payments.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2003:

<u>Year</u>	<u>Governmental</u>	<u>Enterprise</u>
2004	\$99,267	\$109,627
2005	99,269	84,799
2006	<u>77,225</u>	<u>20,585</u>
Total	275,761	215,011
Less: Amount Representing Interest	<u>(27,847)</u>	<u>(17,554)</u>
Present Value of Net Minimum Lease Payments	<u>\$247,914</u>	<u>\$197,457</u>

The City is party to the following leases as lessor:

<u>Lessee</u>	<u>Property</u>	<u>Amount</u>
Various	Airport Hangars	\$5,235 per month
Galion City Board of Education	City Land Parcel	1 per year
Crawford County Commissioners	Municipal Government	225 per month
Galion Jaycees	Old Waterworks Plant	1 per year
Styling Station	East Church Street	250 per month

The City's leasing operations include leasing of space for a courtroom to the Crawford County Commissioners for \$225 a month and leasing hangars at the municipal airport. The airport hangars are leased to various individuals and businesses for varying amounts. The leases are cancelable by either party upon thirty days of written notice.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

9. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System (OPERS)

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in OPERS. The OPERS administers three separate pension plans. The first plan is the Traditional Pension Plan (TP), a cost-sharing multiple-employer defined benefit pension plan. The second plan is the Member-Directed Plan (MD), 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 member and (vested) employer contributions plus any investment earnings thereon. The third plan is the Combined Plan (CO), a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TD, MD and CO). The member contribution rate is 8.5%. The employer contribution rate for local government employer units was 13.55% of covered payroll. The City's total employer share contributions (13.55% of covered payroll) to the OPERS for all plans (TP, MD and CO) for the years ended December 31, 2003, 2002, and 2001, were \$468,336, \$472,947, and \$425,670, respectively, equal to the required contributions for each year. The City also picked up \$281,386 in employee share contributions in 2003.

B. Ohio Police and Fire Pension Fund (OP&F)

All City of Galion full-time uniformed police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary. The employers are required to contribute 19.5 % and 24 % respectively for police officers and firefighters. Contributions are authorized by State statute. The City's total employer share contributions (the 19.5% and 24%) to the OP&F for the years ending December 31, 2003, 2002, and 2001, were \$398,509, \$366,441, and \$306,314, respectively, equal to the required contributions for each year. The City also picked up \$82,751 and \$100,348 in employee share contributions for police officers and firefighters, respectively, in 2003.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

10. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

The OPERS administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

The OPERS provides retirement, disability, survivor and postretirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postretirement health care coverage.

In order to qualify for postretirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate for local government employer units was 13.55 % of covered payroll. The portion of the 2003 employer contribution rate that was used to fund health care for the year was 5% of covered payroll and amounted to \$172,818.

The Ohio Revised Code provides the statutory authority to require public employers to fund postretirement health care through their contributions to OPERS. The following assumptions and calculations were based on the OPERS's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.3%. Health care costs were assumed to increase 4.00% annually.

Benefits are advance-funded on an actuarially determined basis. At year-end 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. The actuarial value of the OPERS's net assets available for OPEB at December 31, 2002 is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. 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, as the name suggests, will incorporate a cafeteria approach, offering a more broad 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 GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

10. POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (OPERS) (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 his or her allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund (OP&F)

OP&F provides access to postretirement health care coverage for 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 that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003. In addition, since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002, the date of the last actuarial valuation available, is 13,527 for Police and 10,396 for Firefighters. The City contribution made to fund postemployment benefits under the OP&F during 2003 was \$62,937 for police and \$77,549 for fire. OP&F's total health care expense for the year ended December 31, 2002, the date of the last actuarial valuation available, was \$141,028,006, which was net of member contributions of \$12,623,875.

11. RISK MANAGEMENT

Comprehensive -The City maintains comprehensive insurance coverage with Arch Insurance Company for employee liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. The maximum coverage for the vehicle policy is \$1,000,000 combined single limit of bodily injury and property damage for each occurrence, accident, or claim with no aggregate. General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. In addition, the City maintains governmental errors & omissions insurance in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate. Also, an umbrella policy is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the aggregate.

Self-Insurance - On July 1, 1988, the City established a self-insurance program for medical benefits that is reported in the Self Insurance Fund (an internal service fund). This program is administered by an independent company, which furnishes verification, processing and payment services. A specific excess major medical reinsurance policy indemnifies the City for any amount over \$75,000 per individual or \$1,816,560 total paid in any fiscal year. The maximum this policy will pay is \$1,000,000 in any fiscal year.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

12. CONTINGENT LIABILITIES

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

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

13. INVESTMENT IN JOINT VENTURE WITH EQUITY INTEREST

A. Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1)

The City is a participant with 20 other subdivisions within the State of Ohio in a joint venture for the purpose of providing electric power and energy to its participants on a cooperative basis. The Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) was created for that purpose. The electric generating facilities of JV1, known as the Engle Units, are currently located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$12,099 to the joint venture in 2003 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$29,524 at December 31, 2003. Financial information for JV1 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)

The City is a Financing Participant and an Owner Participant with percentages of liability and ownership of 5.47% and 4.29% respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

13. INVESTMENT IN JOINT VENTURE WITH EQUITY INTEREST (Continued)

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2) (Continued)

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2003 was \$2,165,383 (net of amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment in OMEGA JV2 was \$2,116,701 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

The City's liability for the bonds are disclosed below:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2004	\$97,721	\$121,413	\$219,134
2005	101,827	117,260	219,087
2006	106,207	112,932	219,139
2007	110,586	108,684	219,270
2008-2020	<u>2,068,837</u>	<u>780,287</u>	<u>2,849,124</u>
Total Gross Liability	2,485,178	<u>\$1,240,576</u>	<u>\$3,725,754</u>
Less: Amounts Held in Reserve	<u>(319,795)</u>		
Net Obligation	<u>\$2,165,383</u>		

14. SUBSEQUENT EVENTS

Debt

On June 2, 2004, the City borrowed \$140,000 from the Ohio Public Works Commission for Westside waterline improvements. The note had an interest rate of 0%.

On June 3, 2004, the City retired the various purpose bond anticipation notes in the amount of \$6,145,000. The notes had been issued for street improvements, water system improvements, fire truck renovations, airport improvements, parks and recreation improvements, water system improvements, sanitary sewer system improvements, storm water system improvements, and Cheshire Estates Subdivision streets and easements improvements, in the amounts of \$350,000, \$350,000, \$50,000, \$120,000, \$275,000, \$1,500,000, \$1,500,000, \$1,000,000, and \$1,000,000, respectively. The notes had an interest rate of 1.625%.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

14. SUBSEQUENT EVENTS (Continued)

On June 3, 2004, the City issued various purpose bond anticipation notes in the amount of \$1,758,750. The notes were issued for street improvements, fire truck renovations, airport improvements, parks and recreation improvements, and Cheshire Estates Subdivision streets and easements improvements, in the amounts of \$350,000, \$40,000, \$111,250, \$257,500, and \$1,000,000, respectively. The notes had an interest rate of 4.55%. Interest on the Notes shall be payable on each June 1 and December 1, commencing December 1, 2004. Principal is paid June 1, 2005, June 1, 2006, and June 1, 2007 in the amounts of \$59,584, \$59,584, and \$1,639,582, respectively.

On June 3, 2004, the City entered into an agreement with the Ohio Water Development Authority (OWDA) in which the City could borrow money for certain capital projects. As of December 22, 2004, the City has borrowed money from the OWDA for the Cheshire Estates Subdivision improvements, water system improvements, sewer system improvements, and storm water improvements in the amounts of \$831,952, \$2,025,030, \$1,505,688, and 1,160,046, respectively. The City has the ability to borrow more money with this agreement from the OWDA for the Cheshire Estates Subdivision improvements, water system improvements, and sewer system improvements in the amounts of \$303,007, \$64,257, and \$125,000, respectively. The interest rate on all these projects is 3.98%. The Cheshire Estates Subdivision note will be paid back over 20 years with the first payment due July 1, 2005. The remaining three notes will be paid back over 30 years with the first payment due July 1, 2006. Principal and interest will be paid back in equal semiannual payments on July 1 and January 1 for all four notes.

On November 14, 2004, the City retired the \$5,500,000 AMP-Ohio electric system improvement notes. On November 14, 2004, the City issued an Amended Restated Loan Agreement and Promissory Note for \$5,500,000 between the City and AMP-Ohio to restructure the electric system improvement debt. AMP-Ohio will draw on its line of credit and the City will reimburse AMP-Ohio for its actual interest cost on the \$5,500,000 draw plus administrative fees. The interest rate is the LIBOR rate plus 1.5% (150 basis points) and .22% (22 basis points) per annum. The initial rate is estimated to be 3.9938 percent per annum.

On August 5, 2004, the City entered into a Security Agreement with AMP-Ohio to borrow \$1,294,174.22. The interest rate shall be payable at the lesser of the rate of eight percent per annum or the rate specified in the applicable power and joint venture agreement between AMP-Ohio, OMEGA JV1 and OMEGA JV2, on the one hand, and the City on the other. The principal shall be paid on demand, or at AMP-Ohio's option, in 12 equal installments of \$107,847.85. The monthly installments began September 15, 2004.

On December 16, 2004, the City issued various purpose bonds in the amount of \$3,500,000. The bonds were issued for airport improvements, fire & safety system improvements, parks and recreation improvements, police department improvements, and street improvements in the amounts of \$127,000, \$607,000, \$1,263,000, \$231,000, and \$1,272,000, respectively. The bonds had an interest rate of 5%. Interest on the Note shall be payable on each June 1 and December 1, commencing June 1, 2005. Principal is paid December 1 of each year from 2005 to 2014 in the amounts of \$350,000 each year.

Fiscal Emergency

On August 9, 2004, the Auditor of State placed the City of Galion in fiscal emergency after an analysis showed the City had 13 separate fund deficits totaling more than \$10.9 million. As a result of the City being placed in fiscal emergency, a Financial Planning and Supervision Commission was established to oversee the City's finances. The Commission includes the following: the City Manager, City Council President, three community members appointed by the Governor, and designees from the Treasurer of State's Office and the Ohio Office of Budget and Management. The Auditor of State's Office acts as the financial consultant to the commission.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants/State's Program	A-F-02-124-1	14.228	\$ 79,000
Community Development Block Grants/State's Program	A-C-01-124-1	14.228	126,875
Community Development Block Grants/State's Program	A-T-00-124-1	14.228	98,185
Community Development Block Grants/State's Program	A-F-03-124-1	14.228	5,944
Total Community Development Block Grant/State's Program			310,004
HOME Investment Partnerships Program	A-C-01-124-2	14.239	216,751
Total U.S. Department of Housing and Urban Development			526,755
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Passed through the Ohio Emergency Management Agency</i>			
Assistance to Firefighters Grant	EMW-2003-FG-18366	97.044	32,481
Total U.S. Federal Emergency Management Agency			32,481
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed through Ohio Attorney General</i>			
Crime Victim Assistance	2003VAGENE469	16.575	11,242
Crime Victim Assistance	2004VAGENE469	16.575	3,696
Total U.S. Department of Justice			14,938
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Economic Development/Technical Assistance	N/A	11.303	12,500
Total U.S. Department of Commerce			12,500
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Airport Improvement Program	N/A	20.106	7,380
Airport Improvement Program	N/A	20.106	109,148
Total U.S. Department of Aviation			116,528
TOTAL FEDERAL AWARDS EXPENDITURES			\$ 703,202

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE 2 – MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Galion
Crawford County
301 Harding Way East
Galion, Ohio 44833

To the Members of City Council:

We have audited the financial statements of the City of Galion, Crawford County, Ohio, (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated January 21, 2005, which was qualified because management made adjustments to reallocate certain expenditures recorded in the City's accounting ledgers with no support to demonstrate that such adjustments resulted in expenditures being charged to the proper funds. The City also prepared its financial statements on the basis of cash receipts and disbursements rather than in accordance with accounting principles generally accepted in the United States of America. Additionally, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission has been appointed to oversee the financial affairs of the City. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 through 2003-023. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated January 21, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-024 through 2003-028.

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A material weakness is a 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 in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider each of the reportable conditions listed above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the City's management in a separate letter dated January 21, 2005.

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 21, 2005



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of Galion
Crawford County
301 Harding Way East
Galion, Ohio 44833

To the Members of City Council:

Compliance

We have audited the compliance of the City of Galion, Crawford County, Ohio, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings as items 2003-023 and 2003-029. We also noted a certain immaterial instance of noncompliance that we have reported to the City's management in a separate letter dated January 21, 2005.

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Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings as items 2003-024 through 2003-028.

A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions listed above to be material weaknesses. We also noted a certain other matter involving the internal control over federal compliance that does not require inclusion in this report that we have reported to the City's management in a separate letter dated January 21, 2005.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 21, 2005

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Airport Improvement Program – CFDA # 20.106 Community Development Block Grant – State's Program (CDBG) - CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)

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

Finding Number	2003-001
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Finding for Recovery

Misappropriated City Receipts

From June 10, 1999 to June 30, 2003, William Bauer, former City Finance Director, deposited \$65,069.83 of City checks into his personal bank account. Of this total, \$6,546.30 were health care self-insurance reimbursements, \$8,778.53 were property insurance settlements and reimbursements, and \$49,745 were recreation fees.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against William Bauer, and Western Surety Company, William Bauer's bonding company, in the amount of sixty-five thousand sixty-nine dollars and eighty-three cents (\$65,069.83), and in favor of the General Fund for \$58,523.53, and the Self-Insurance Fund for \$6,546.30.

Finding Number	2003-002
-----------------------	----------

Finding for Recovery

Credit Card Cash Advances

From April 14, 2003, to March 5, 2004, William Bauer took cash advances against the City's credit card account totaling \$4,201.24, including \$175.24 of fees and finance charges related to the cash advances. There is no evidence any of the cash advances were used for a public purpose.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against William Bauer, and Western Surety Company, William Bauer's bonding company, in the amount of four thousand two hundred one dollars and twenty-four cents (\$4,201.24), and in favor of the City of Galion General Fund.

Finding Number	2003-003
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Finding for Recovery

ATM/Cash Withdrawals – Veterans Memorial Account

As Finance Director of the City, William Bauer opened a Veteran's Memorial bank account in the City's name on July 11, 2000, to collect donations for and finance the construction of a veteran's memorial in the City. The account signature card identifies only Mr. Bauer as authorized to make payments and transact business for this account. From February 8, 2002, to February 4, 2004, Mr. Bauer made ATM withdrawals from the account totaling \$17,627.50, including \$34.50 of bank fees. Also, on November 3, 2000, Mr. Bauer wrote a check to the bank to withdraw \$2,212.50 of cash from the City's Veteran's Memorial Commission bank account and indicated in the memo description the purpose was for miscellaneous invoices. There is no evidence any of the cash withdrawn from this account was used for a public purpose.

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

Finding Number

2003-003 (Continued)

Finding for Recovery

ATM/Cash Withdrawals – Veterans Memorial Account – (Continued)

As indicated in finding 2003-11, on May 17, 2004, the City's General Fund reimbursed the Veteran's Commission fund, in part, for the following:

- \$17,627.50 for unauthorized ATM withdrawals and related fees;
- \$2,212.50 for an unauthorized cash withdrawal;

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against William Bauer, and Western Surety Company, William Bauer's bonding company, in the amount of nineteen thousand eight hundred forty dollars (\$19,840), and in favor of the City of Galion General Fund.

Finding Number

2003-004

Finding For Recovery

Unallowable Insurance Claim

Section 9 of the City's self-insurance policy indicates charges for orthopedic shoes or other supportive appliances for the feet are excluded from medical insurance coverage.

From July 31, 1999 to March 9, 2004, the City made eleven expenditures totaling \$3,895 for orthopedic devices in violation of City policy for both employees and dependents of employees. These expenditures were made pursuant to authorization from William Bauer, former City Finance Director.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of such expenditure. Seward v. National Surety Co., 120 Ohio St. 47 (1929); 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; State, ex.rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985).

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against William Bauer, former City Finance Director, and Western Surety Company, William Bauer's bonding company, for \$3,895, and in favor of the City of Galion General Fund (\$2,100), Sewer Operating Fund (\$1,445), and the Water Operating Fund (\$350).

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-005
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Finding for Recovery

Sick Leave Incentive – Bill Bauer

Section 27.6 of the Agreement between the City of Galion and Local No. 2243, Council 8 of the American Federation of State, County and Municipal Employees (AFSCME) states employees who have accumulated the required number of hours of sick leave as designated below and whose use of sick leave hours have been limited to the following amounts in the previous year, computed December 1 to December 1, shall be eligible to receive an incentive payment as follows for 2002, 2003, and 2004:

Sick Leave Accumulation Required:	600 Hours
Hours Used in Previous Year:	
0-12 Hours	\$ 500
13-24 Hours	\$ 250

Sick leave incentive pay will be paid on the first non-pay week in December of each year based on the employee's usage over the previous twelve (12) month period computed December 1 to December 1. The sick leave incentive payment shall not affect the employee's sick leave accumulation total.

On December 9, 2002, the City paid the \$500 sick leave bonus to William Bauer, former City Finance Director. His sick leave balance as of December 1, 2002, however, was only 505.09 hours, which is below the required 600 hours that must be maintained to be eligible for the bonus. As a result, Mr. Bauer was not eligible to receive a sick leave bonus in 2002.

On December 12, 2003, the City paid the \$500 sick leave bonus to William Bauer. Mr. Bauer's sick leave balance as of December 1, 2003, however, was only 483.79 hours, which is below the required 600 hours that must be maintained to be eligible for the bonus. As a result, Mr. Bauer was also not eligible to receive any sick leave bonus in 2003.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against William Bauer, and Western Surety Company, William Bauer's bonding company, in the amount of one thousand dollars (\$1,000), and in favor of the City of Galion General Fund.

Finding Number	2003-006
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**Finding Repaid Under Audit
Duplicate Payment**

On December 17, 2001, the City was billed by Wausau Tile, Inc. \$3,061.15 for concrete products related to the City's Veterans Memorial project. On November 15, 2001, Wausau Tile charged the City's credit card for this purchase. Also, on January 8, 2002, the City Finance Director wrote a check from the City's Veterans Memorial bank account for this same purchase.

On December 29, 2004, Wausau Tile, Inc. refunded \$3,061.15 to the City's general fund.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-007
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**Finding Repaid Under Audit
Travel Expense – Judith Kleinknecht**

On January 21, 2003, airfare of \$149.68 was charged to the City's credit card for Judith Kleinknecht to accompany her spouse, a City councilperson, on a City-related business trip. Ms. Kleinknecht is not an employee of the City and, as a result, her expenses do not represent City obligations. Ms. Kleinknecht was not invoiced by the City at the time these expenses were incurred.

On November 19, 2004, Judith Kleinknecht repaid the City the full \$149.68.

Finding Number	2003-008
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**Finding Repaid Under Audit
Travel Expense – Janice Rabal**

On January 21, 2003, airfare of \$149.68 was charged to the City's credit card for Janice Rabal to accompany a City employee on a City-related business trip. Ms. Rabal is not an employee of the City and, as a result, her expenses do not represent City obligations. Ms. Rabal was not invoiced by the City at the time these expenses were incurred.

On December 9, 2004, repayment of \$149.68 for Ms. Rabal's airfare was made to the City.

Finding Number	2003-009
-----------------------	----------

**Finding Repaid Under Audit
Travel Expense – Mary Sue Smith**

On January 21, 2003, airfare of \$149.68 was charged to the City's credit card for Mary Sue Smith to accompany her spouse, a City councilperson, on a City-related business trip. Ms. Smith is not an employee of the City and, as a result, her expenses do not represent City obligations. Ms. Smith was not invoiced by the City at the time these expenses were incurred.

On November 17, 2004, Ms. Smith repaid the City the full \$149.68.

Finding Number	2003-010
-----------------------	----------

**Finding Repaid Under Audit
Travel Advance**

On January 27, 2004, the City issued a check to advance \$1,200 to Phil Honsey, City Manager, for a business conference attended by Mr. Honsey and several City Council members in Washington D.C. Following the conference, Mr. Honsey provided receipts for \$388.33 of expenses incurred on the business trip. Mr. Honsey stated the unspent cash of \$811.67 was given to William Bauer, former City Finance Director, following his return from the business trip. There is no evidence the \$811.67 was deposited in the City's bank account.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-010 (Continued)
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**Finding Repaid Under Audit (Continued)
Travel Advance (Continued)**

On December 28, 2004, the City Manager paid the \$811.67 to the City. The City Manager has stated that this transaction does not imply responsibility for the missing cash and he has requested reimbursement of the \$811.67 if such monies are otherwise recovered by the City.

Finding Number	2003-011
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**Finding for Adjustment
Veterans Memorial Fund**

City Council Ordinance No. 2000-24 provided for the establishment of a Veterans Memorial Commission, with one of the primary purposes of the Commission being to build a Veterans Memorial. Among the primary purposes and objectives of the Veterans Memorial Commission, Section 159.02(G) of the ordinance provides the Commission will accept gifts, bequests or donations in cash or kind for the indicated purpose of furthering the work of the Commission. Any gifts in money shall be deposited in the General Fund in a separate line item account designated the source to be used as directed by the Commission upon appropriation by Council.

The City Finance Director established a Veteran's Memorial bank account and was the sole individual authorized to transact business through the account. The City did not establish a special fund in the City's accounting ledgers to report the financial activity of the Veterans Memorial project, nor was a separate account established in the general fund to account for such activity. The activity related to the Veterans Memorial project was also not appropriated or approved by City Council.

Ohio Rev. Code Section 5705.10 states, in part, all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Furthermore, such monies shall only be used for the purpose for which such funds are established.

Revenues deposited into the Veterans Memorial Commission bank account were, in some instances, required to be deposited into other City funds. Also, revenues generated for the purpose of the Veterans Memorial project were, in certain instances, used for purposes not consistent with the project.

- The following were deposited by the City Finance Director into the City's Veterans Memorial bank account:

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-011 (Continued)
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**Finding for Adjustment (Continued)
Veterans Memorial Fund (Continued)**

<u>Date</u>	<u>Amount</u>	<u>Description</u>	<u>Proper Fund</u>
2/20/2001	\$ 58,120.87	Sun Life Assurance Co.	Self-Insurance
11/15/2002	2,284.54	Klais & Company, Inc.	Self-Insurance
12/26/2002	2,132.20	Klais & Company, Inc.	Self-Insurance
5/5/2003	1,771.84	IPS Network, Inc.	Self-Insurance
9/23/2003	1,512.38	IPS Network, Inc.	Self-Insurance
1/29/2004	2,836.21	IPS Network, Inc.	Self-Insurance
	\$ 68,658.04		
9/23/2003	\$ 966.28	Pepsi Bottling	General
3/25/2004	\$ 218.40	Milliron Iron & Metal	Street

- A \$25,000 donation received for the Veterans Memorial was deposited and posted into the City's general fund on September 30, 2000.
- Invoices for landscape architectural fees for the Veterans Memorial project dated October 7, 2000, and April 27, 2001, for \$2,212.50 and \$2,500, respectively, were paid from the City's general fund.
- An invoice for \$447 for printing services provided to the Veterans Memorial Commission was paid by the City's general fund on June 25, 2001.
- On September 22, 2000, the Veterans Memorial Commission reimbursed the City of Galion \$84,760, the full cost of the Veterans Memorial monument, for payments the City made to the monument vendor. However, one of the three installment payments equal to \$28,252 for this project was never made by the City. On July 18, 2001, the Veterans Memorial Commission issued payment directly to the vendor for the third installment payment of \$28,252. As a result, the Commission over-reimbursed the City by \$28,252.
- On June 7, 2001, the Veterans Memorial Bank account was charged a wire fee of \$15 to wire a Bureau of Workers Compensation rebate improperly deposited in the Veterans Memorial account to the City's bank account.
- The Veterans Memorial Commission received and paid a bill for concrete work that included \$1,106.25 of work for other City projects.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-011 (Continued)
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**Finding for Adjustment
Veterans Memorial Fund (Continued)**

The City elected to make an adjustment to correct these errors. The following are additional items for which the City elected to reimburse the Veterans Memorial account:

- \$17,627.50 for unauthorized ATM withdrawals and related fees;
- \$2,212.50 for an unauthorized cash withdrawal;
- \$127 for bank overdraft fees charged as a result of the unauthorized ATM and cash withdrawals;
- \$148.74 for an unauthorized debit purchase made from the Veterans Memorial bank account;
- \$5 for an invoice overpaid out of the Veterans Memorial bank account; and
- \$1,850 for a shortage of donations deposited in the Veterans Commission bank account between July 11, 2000, and March 31, 2004, compared to the donations recorded in the Veterans Memorial Commission records.

With the errors and other factors described above, the City's General Fund balance was overstated by \$70,218.21, the Self-Insurance Fund balance was understated by \$68,658.04, the Street Fund balance was understated by \$218.40, and the Veterans Memorial Fund balance was understated by \$1,341.77.

On May 17, 2004, the City reimbursed the Veterans Memorial Fund \$2,479.37 from the General Fund, which was \$1,137.60 more than the reimbursement to the Veterans Memorial Fund should have been, and no adjustment was made to the Self-Insurance Fund or Street Fund. As a result, the General Fund balance was still overstated by \$67,738.84, the Self Insurance Fund balance remained understated by \$68,658.04, the Street Fund balance remained understated by \$218.40, and the Veterans Memorial fund balance was overstated by \$1,137.60.

Adjustments for these errors have been made by the City and are reflected in the financial statements.

Finding Number	2003-012
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**Finding for Adjustment
General Government Fund Allocation**

Ohio Rev. Code Section 5705.12 provides, in part, that in addition to the funds provided for by Ohio Rev. Code Sections 5705.09 and 5705.13, the taxing authority of a subdivision may establish, with the approval of the Auditor of State, such other funds as are desirable.

Ohio Rev. Code Section 5705.10 provides, in part, money that is paid into a fund must be used only for the purposes for which such fund has been established.

In 1986, the City established a General Government Fund. Although this fund received no receipts, various expenditures, totaling \$1,735,446, were posted to this fund in 2003. Following year-end, the City allocated total expenditures from this fund evenly with \$433,861.50 being allocated each to the City's General fund, Water fund, Sewer fund, and Electric fund.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-012 (Continued)
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Finding for Adjustment

General Government Fund Allocation (Continued)

The City received no approval from the Auditor of State to establish the General Government fund. Also, the City has no established policy regarding what types of expenditures are posted to the General Government Fund or regarding the basis for allocating such expenditures to other funds. Furthermore, the City is unable to demonstrate the expenditures being allocated to the Water, Sewer, and Electric funds are allowable and proper expenditures of these funds.

Expenditures charged to the General Government Fund are comprised of a wide variety of expenditures, for which any allocation between funds would vary based on the individual expenditure and related purpose. The City has no basis to allocate the entire General Government fund evenly between the General, Water, Sewer, and Electric funds. Certain expenditures charged to the General Government fund may be proper to allocate to one or more of these funds, but not necessarily to all four of these funds, and not necessarily to no other City funds. Furthermore, general fund overhead expenses are already being allocated to these utility funds by posting utility receipts directly to the general fund, pursuant to 1952 Ohio Atty. Gen. Opinion No. 1533.

The City should discontinue use of the General Government Fund as a means for allocating City expenditures between multiple funds. Rather, the City should make any necessary allocations to the applicable City funds by individual expenditure and at the time such expenditure is made.

The City has posted an adjustment to reduce expenditures in the Water Fund, Sewer Fund, and Electric Fund by \$433,861.50 each, and increase expenditures in the General Fund by \$1,301,584.50. This adjustment is reflected in the financial statements.

In 2004, the City discontinued use of the General Government Fund.

Finding Number	2003-013
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Finding for Adjustment

Library Bond Issue

Ohio Rev. Code Section 5705.09 states in part that each subdivision is required to establish a special bond fund for each bond issue. Ohio Rev. Code Section 5705.10 further requires all revenue derived from special levies for debt charges on bonds having a life of more than five years to be paid into the bond sinking fund.

A library bond levy was passed by the residents of Galion in 1988, with collection of the tax levy beginning in 1989. Each year since the inception of the levy, the City has collected more than the amount needed to pay the debt. This was due, in part, from the City Finance Director not certifying the City's fund balances to the County Auditor, or certifying the fund balances incorrectly, each year. The City did not maintain that excess balance in the library bond fund. Instead, those excess monies in the library bond fund were used to retire other City debt. The following schedule compares levy collections with required debt service payments each year for the City's library bond issue.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-013 (Continued)
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**Finding for Adjustment
Library Bond Issue (Continued)**

Year	Levy Collections	Debt Service Payments	Cumulative Excess
1989	\$ 118,313.67	\$ -	\$ 118,313.67
1990	92,606.55	-	210,920.22
1991	96,627.25	95,468.75	212,078.72
1992	93,926.77	78,925.00	227,080.49
1993	92,957.81	77,475.00	242,563.30
1994	90,215.05	81,025.00	251,753.35
1995	100,319.08	79,212.50	272,859.93
1996	100,133.91	77,400.00	295,593.84
1997	113,898.38	80,587.50	328,904.72
1998	126,089.73	78,412.50	376,581.95
1999	124,913.47	76,237.50	425,257.92
2000	108,071.39	79,062.50	454,266.81
2001	98,869.66	76,437.50	476,698.97
2002	114,346.15	78,812.50	512,232.62
2003	42,318.28	80,812.50	473,738.40

As of December 31, 2003, the balance in the library bond fund should have been \$473,738.40, but the actual balance reported in the City's accounting ledgers was (\$61,628.80), resulting in a difference of \$535,367.20.

We recommend the City establish a separate debt service fund to account for each City debt issue. Without maintaining separate funds, the City may be unable to track receipts levied for particular debt issues and, as a result, the possibility exists that residents could be overcharged for such levies. Furthermore, by commingling the activity of various City debt issues, the City may be unable to demonstrate compliance with debt covenants and may be subject to immediate calling of the outstanding debt by the bondholders.

The City has made an adjustment to properly report this balance in the library bond fund and that adjustment is reflected in the financial statements.

In 2004, the County Auditor suspended collection of this tax levy so that levy collections would not exceed the amount needed for debt service expenditures over the life of the bonds.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-014
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**Finding for Adjustment
Non-Profit Entity Expenditures**

Ohio Rev. Code Section 5705.10 states, in part, all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Furthermore, such monies shall only be used for the purpose for which such funds are established.

The City entered into an agreement dated January 1, 2003 with the Galion Community Improvement Corporation (the Corporation). In Section 1 of this agreement, the Corporation agreed to provide the following services for the City:

- Prepare and implement a continuing program of industry and other targeted business recruitment and the retention of present industry and other targeted businesses within the Galion area;
- Administer revolving and non-revolving loan funds;
- Apply for and administer any economic development grants (State, Federal, or private foundation) geared toward creating and/or retaining jobs within the Galion area;
- Assemble and acquire properties within the Galion area for industrial, commercial distribution and research development.

Although no specific amount was stipulated in the agreement, the City paid to the CIC four equal installments of \$34,153.75, for a total of \$136,615 in 2003. These payments were made from the City's Electric Operating Fund.

Similarly, although no written contract existed, the City made payments to the Galion Chamber of Commerce, and Main Street Galion totaling \$35,340 and \$82,748, respectively, from the City's Electric Operating Fund.

Although a portion of the services provided by these organizations relate to economic impact affecting the City's electric utility, certain of the services provided did not relate to the City's electric utility. The City has estimated these expenditures to be 50% related to the electric fund and 50% related to the general fund. As a result, expenditures in the Electric Operating Fund were overstated by \$127,351, and expenditures in the General Fund were understated by \$127,351.

The City has made the adjustment and that adjustment is reflected in the financial statements.

In the future, for all economic development expenditures made from the electric fund, the City should provide support and or documentation of the purpose of the expenditure and/or the benefit derived by the electric fund.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-015
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**Finding for Adjustment
Kilowatt Hour Tax**

Ohio Rev. Code Section 5727.81(A) provides, in part, that for the purpose of raising revenue for public education and state and local government operations, an excise tax is hereby levied and imposed on an electric distribution company for all electricity distributed by such company. This tax is assessed at a variable rate that decreases with the kilowatt-hours distributed in a thirty day period through the meter of an end user. Ohio Rev. Code Sections 5727.81(C)(2) and 5727.82(A)(3) provide, in part, that the portion of the tax on kilowatt hours distributed to end users located within the boundaries of the municipal corporation must be allocated to and may be retained by the municipality's general fund.

Ohio Rev. Code Sections 5727.82(A)(1) and (A)(3) provide, in part, that the portion of the tax on kilowatt hours distributed to end users located outside the boundaries of the municipal corporation must be submitted to the state by the 20th of the next month following billing.

During 2003, the City assessed and submitted to the state the required kWh tax on end users located outside the boundaries of the City. The City also assessed the kWh tax on end users located within the boundaries of the City, but allocated this tax to the Electric Fund rather than the General Fund. As a result, the General Fund's revenue was understated by \$419,427, and the Electric Fund's revenue was overstated by \$419,427. The financial statements have been adjusted to reflect the proper allocation of kWh tax from the Electric Fund to the General Fund.

We recommend the City assess the required kWh tax on end users located within the boundaries of the City, and then allocate this tax to the General Fund. The City may retain the kWh tax in the General Fund, or Council may pass an ordinance to transfer the tax to the Electric Fund.

Finding Number	2003-016
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**Finding for Adjustment
Freese Foundation Contribution**

Article I, Section 1.03 of the Code of Regulations of Egbert M. Freese Foundation states, in part, the annual net income from such property shall be generally used for upkeep and maintenance of City facilities that benefit the people of the City of Galion or to pay costs of improvements as shown on the City's then current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. The Board of Trustees may enter into one or more contracts to pay some portion or all of the annual net income to facilitate such capital improvements or the servicing of debts relating to such improvements.

In 2003, the City received a contribution of \$229,250 from the Egbert M. Freese Foundation, representing a portion of the interest earned by the foundation. Although this contribution is restricted for specified purposes, and the City has established a fund to account for contributions received pursuant to this foundation, the City posted this contribution to the General Fund. As a result, general fund receipts were overstated and Freese Construction Fund receipts were understated by \$229,250.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-016 (Continued)
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**Finding for Adjustment
Freese Foundation Contribution (Continued)**

The City has posted an adjustment to reflect this contribution in the Freese Construction Capital Projects Fund.

Finding Number	2003-017
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GAAP Reporting

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the City prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with GAAP for 2003. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the City's ability to evaluate and monitor the overall financial condition of the City.

We recommend the City prepare its financial statements on the GAAP basis of accounting.

Finding Number	2003-018
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Expenditures Exceed Appropriations

Ohio Rev. Code Section 5705.41(B) states in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated against an appropriate fund.

Budgetary expenditures exceeded appropriations in the following funds at December 31, 2003:

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-018 (Continued)
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Expenditures Exceed Appropriations (Continued)

Fund	Fund #	Appropriations	Budgetary Expenditures	Variance
General	101/102/103	\$5,598,039	\$9,003,122	(\$3,405,083)
Street/State Highway	201/202/203	983,260	1,685,184	(701,924)
Airport	607	82,731	363,370	(280,639)
CDBG	402	-	430,903	(430,903)
CDBG	403	-	100,473	(100,473)
Fire Pension	802	250,000	344,475	(94,475)
Debt Service	301	80,000	389,977	(309,977)
Water	601/602	1,798,737	3,933,131	(2,134,394)
Sewer	603/604	1,985,613	3,466,001	(1,480,388)
Electric	605/606	8,512,111	15,172,291	(6,660,180)
Storm Water	608	351,312	1,631,594	(1,280,282)
Health Insurance	805	950,000	1,253,412	(303,412)

We recommend the City closely monitor budgeted versus actual expenditure reports throughout the year to ensure expenditures do not exceed appropriations. In order to keep expenditures within appropriated amounts, the City Council may consider amending appropriations or implementing cost-cutting measures to limit City expenditures.

The City has implemented certain cost-cutting measures in 2004.

Finding Number	2003-019
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Appropriations Exceed Estimated Resources

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission.

At December 31, 2003, appropriations exceeded estimated resources as follows:

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-019 (Continued)
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Appropriations Exceed Estimated Resources (Continued)

Fund	Fund #	Unencumbered Estimated Resources	2003 Appropriations	Variance
Street/State Highway	201/202/203	\$ (1,846,983)	\$ 960,000	\$ (2,806,983)
Airport	607	(5,246)	80,000	(85,246)
Police Pension	801	(313,084)	250,000	(563,084)
Fire Pension	802	(365,124)	250,000	(615,124)
Debt Service	301	10,131	80,000	(69,869)
Electric	605/606	5,137,381	8,000,000	(2,862,619)
Health Insurance	805	603,948	950,000	(346,052)

We recommend the City closely monitor its appropriations in respect to its estimated resources to help ensure the City doesn't overspend.

Finding Number	2003-020
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Cheshire Estates Subdivision Notes

City Council Ordinance No. 2003-50 provided for the issuance and sale of \$1,000,000 notes, in anticipation of the issuance of bonds, to pay the property owners' portion, in anticipation of the levy and collection of special assessments, of the cost of improving public streets and easements in the Cheshire Estates Subdivision. Section 7 of the ordinance states the proceeds from the sale of the notes, except any premium and accrued interest, shall be paid into the proper fund or funds and those proceeds are appropriated and shall be used for the purpose for which the notes are being issued.

Ohio Rev. Code Section 5705.10 provides, in part, all proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code section 133.01, except premium and accrued interest, shall be paid into a special fund for the purpose of such issue. Furthermore, money paid into any fund shall only be used for the purpose for which such fund is established.

Rather than being posted to a capital projects fund restricted for the purpose of the project, the proceeds of the note issuance were improperly posted to the General Fund and commingled with other unrestricted monies of the City. Furthermore, this \$1,000,000 was expended on other unrelated general fund expenditures. As a result, the City had to issue an additional \$1,100,000 of debt for the project in 2004.

Subsequent to year end, the City did post an adjustment to the accounting ledgers to reduce the general fund balance by \$1,000,000, the amount of the original note issuance, and increase the capital projects fund by \$1,000,000. However, as a result of the misposting and improper spending of the original debt proceeds, the City will eventually be required to repay \$2,100,000; \$1,000,000 for the project and \$1,100,000 for unrelated expenditures.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-020 (Continued)
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Cheshire Estates Subdivision Notes (Continued)

We recommend the proceeds from the sale of debt be paid into the proper fund or funds and that those proceeds are appropriated and used only for the purpose for which such debt is issued. We further recommend City Council, the City Manager, and the City Finance Director monitor the terms of each City debt agreement to ensure compliance with debt covenants. Failure to maintain compliance with such covenants could result in the outstanding debt being called due.

Finding Number	2003-021
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Negative Fund Balances

Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates money from one fund was used to cover the expenses of another fund.

The following funds had negative fund balances as of December 31, 2003:

Fund	Fund Number(s)	Fund Balance
General Fund	101/102/103	\$ (1,765,670)
Street Construction, Maintenance, Repair Fund	201	(2,724,888)
Street Improvement Fund	203	(530,214)
CDBG Escrow Fund	403	(271,652)
Electric Fund	605/606	(4,027,075)
Airport Fund	607	(240,157)

We recommend the City use monies paid into each fund only for the purpose for which such fund was established. The City Council and management should closely monitor the fund balances of each fund to ensure expenditures are made only to the extent there are available resources.

Finding Number	2003-022
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Interfund Transfers

Ohio Rev. Code Section 5705.14 states that interfund transfers shall only be made by resolution of the taxing authority.

In 2003, transfers of \$768,810 and \$922,585 were made from the general fund to the police pension special revenue fund and fire pension special revenue fund, respectively, without authorization or approval from City Council.

We recommend transfers between funds be made only with authorization from City Council.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-023
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Certification of Expenditures

Ohio Rev. Code Section 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirement:

- a. Then and Now Certificate – If no certificate is issued as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

- b. If the amount involved is \$1,000 (\$3,000 as of April 7, 2003) or less, the fiscal officer may authorize it be paid without the affirmation of the City Council, upon completion of the "then and now" certificate, if such expenditure is otherwise valid.

Seventy-four percent of the transactions tested were not certified by the Finance Director prior to the commitment being incurred, nor were they certified using a then and now certificate. This procedure is not only required by Ohio law, but is a key internal control procedure in the disbursement process to assure purchase commitments receive prior approval, and to help reduce the possibility of the City's funds being over-expended or exceeding budgetary spending limitations.

We recommend that the Finance Director certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Finance Director should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The approved purchase commitments should be posted to the proper appropriation code to reduce the available appropriation.

Finding Number	2003-024
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**Budgetary Posting
Material Weakness**

Estimated receipts and expenditures were not posted to the City's accounting ledgers in 2003. Failure to post budgeted amounts results in the inability to monitor budgeted versus actual receipts and expenditures, and, thus, may impair the City's ability to detect possible errors or irregularities.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-024 (Continued)
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**Budgetary Posting (Continued)
Material Weakness (Continued)**

To use the budget as an effective management monitoring tool, we recommend the City post to its revenue ledger estimated revenue as certified by the County Budget Commission, and post to its appropriation ledger all appropriation measures approved by the City Council.

Beginning in January 2005, the City posted budgeted amounts to the accounting system.

Finding Number	2003-025
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**Review of Monthly Financial Reports
Material Weakness**

During 2003, the City Finance Director provided no systems-generated reports of financial activity to the City Council to monitor. Periodically, manual reports were created by the Finance Director and distributed to the City Council; however, the activity on the reports was misrepresented and did not agree to the actual activity and balances in the City's accounting system. As a result, the City Council and City Manager did not have accurate knowledge of the financial status of the City and the effectiveness of any monitoring of financial activity was compromised.

Monitoring comprises regular management activities established to oversee whether management's financial objectives are being achieved. Data from such reports may indirectly provide assurance as to the reliability of financial reporting information if it conforms with the users' expectations.

Lack of effective legislative monitoring contributed to the following circumstances occurring and going undetected by City management:

- The City overspent its resources causing negative fund balances totaling more than \$9.2 million at December 31, 2003, and causing bank overdrafts resulting in approximately \$50,000 of bank charges during 2003.
- A bank kiting scheme, whereby the Finance Director made bank transfers between bank accounts when cash was not available to make such transfers, was not detected. Additional transfers were then made from additional bank accounts to cover the previous transfers. This scheme of transfers continued from December 2003 to March 2004 and helped conceal the fact that the City had a negative cash balance in its bank accounts. As of March 31, 2004, there was a negative \$2,500,000 cash balance when the final transfer check had non-sufficient funds to cover the disbursement.

We recommend the Finance Director provide City Council and the City Manager monthly system-generated financial reports, including detailed revenue and expenditure transactions, budget versus actual revenues and expenditures, and fund balances for each fund of the City. The Finance Director should also provide department heads such information pertaining to their respective departments. These reports should be reviewed by management and appropriate follow-up should be made regarding any unusual balances or transactions.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-026
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Expenditure Authorization

Material Weakness

The City Charter designates the City Manager as the supervisor of purchasing for all City departments. However, there was no procedure in place whereby the City Manager authorized or approved expenditure transactions. In certain situations, requisitions were used and, in some cases, signed by a department head, although not consistently. The City contends certain requisitions were done electronically as a means of authorizing purchasing transactions; however, the City provided no documentation or other evidence demonstrating this. Otherwise, expenditure authorization was limited to approval by the Finance Director. The function of the Finance Director in the procurement process should not be to grant authority for purchases to be made, but should be limited to certifying the availability of funds for individual expenditures, or, in the absence of available funds, rejecting purchase requests.

Lack of proper purchase authorization may result in the purchase of improper goods or services that are not consistent with the City Council's objectives or not in compliance with laws, regulations, and grant agreements. In particular, such lack of authorization during 2003 played a major role in the following circumstances:

- the City overspending its resources causing negative fund balances totaling more than \$9.2 million at December 31, 2003, and causing bank overdrafts resulting in approximately \$50,000 of bank charges during 2003;
- paying certain City employees for vacation leave payouts despite there being no authority to do so in the police bargaining unit negotiated agreement;
- overpaying City employees for vacation and sick leave payouts beyond amounts permitted by City policy and bargaining unit agreements;
- paying for health insurance claims designated as unallowable by the City's health insurance policy and which had previously been rejected by the City's insurance administrator; and
- the Finance Director making reimbursement of \$114,892 for a piece of property to the CIC, including a single family structure, near the City's airport without knowledge of the City Manager or City Council at the time of the reimbursement.

We recommend the City implement procedures requiring purchase authorization for all City purchases from the City's designated purchasing agent (e.g. city manager) prior to purchases being made. If the City Manager chooses to delegate this function, he should still perform monitoring of expenditures in such capacity that ensures expenditures are allowable, fulfill a proper public purpose, and do not exceed budgetary limitations established by Council.

We further recommend the Council implement a policy whereby all contemplated expenditures exceeding a certain dollar threshold require prior approval of City Council. Council should also review detailed systems-generated monthly check registers to help ensure City expenditures are only being made for authorized purposes.

Effective April 6, 2004, the City Manager began approving purchase requisitions prior to purchases being made.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

Finding Number	2003-027
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**Posting of Transactions
Material Weakness**

During 2003, the Finance Department staff posted City financial activity to the accounting ledgers at the end of each month rather than daily as each transaction occurred. Additionally, December 2003, January 2004, February 2004, and March 2004 financial activity was not posted to the accounting ledgers until May 2004. Failure to timely post the financial transactions of the City limits the ability of City management to effectively monitor the City's financial activity and condition. Also, posting a large volume of year end adjustments subsequent to year end increases the likelihood of possible errors in the accounting ledgers and financial statements.

To allow for effective monitoring, we recommend financial transactions be posted to the City's accounting ledgers timely as transactions occur. This will enable management and the City Council to more effectively monitor the City's financial condition and make informed decisions.

Effective February 2005, the City began posting transactions on a daily basis.

Finding Number	2003-028
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**Review of Bank Reconciliations and Original Bank Statements
Material Weakness**

During 2003, bank reconciliations were performed monthly by the Finance Director. These reconciliations revealed, in some cases, negative reconciled book balances. However, none of the monthly bank reconciliations or original bank statements were reviewed by the City Manager or City Council.

Lack of City Council or City Manager monitoring of bank reconciliations and original bank statements increases the likelihood that bank reconciliations will not be performed timely and properly, and that any possible improper bank activity may go undetected. From December 2003 to March 2004, the City Finance Director carried out a kiting scheme of bank transfers ranging from \$830,000 to \$2,500,000, and ended with a negative \$2,500,000 cash balance when the final transfer check had non-sufficient funds to cover the disbursement. Regular monitoring of bank reconciliations and original bank statements may have helped detect this scheme.

We recommend the City Finance Director provide monthly bank reconciliations and original bank statements to Council and the City Manager for monitoring on a monthly basis. Supporting documentation for any reconciling items (e.g. outstanding checks, deposits in transit) or adjustments should be included. Council and the City Manager should review the reconciliations along with the supporting documentation to ensure reconciliations are performed timely and properly. Appropriate follow-up should be made for any unusual reconciling items or adjustments.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2003-029
CFDA Title and Number	CFDA #20.106 – Airport Improvement Program
Federal Award Number / Year	3-39-0037-0504
Federal Agency	U.S. Department of Transportation
Pass-Through Agency	N/A

**Airport Improvement Program – Real Property Acquisition and Use
Noncompliance Finding – Allowable Activities**

Chapter 7, Section 701 of the Airport Improvement Program Handbook states, in part, the acquisition of any interest in land is eligible when it is necessary for airport purposes. Chapter 7, Section 700(a)(2) states, in part, the term “airport purposes” refers to all aviation activities normally found on an airport. Section 701 of this provides, in part, that the acquisition of the land or any interest in land for current airport development is eligible when necessary for:

- a. Airside Development. Runways, taxiways, associated safety areas, ramps, aprons, and the land adjacent to these facilities required by current standards for separation and clearance. In addition, land for ultra light operations at an existing airport is eligible when necessary for safety or capacity purposes and if the airport itself is eligible to receive grant funding.
- b. Protection of the Airport Approach Area. The approach zones (including runway protection zone), horizontal, conical, and transitional zones at airports required to convey a right of flight. This also includes the right to remove existing obstructions and to restrict the establishment of future obstructions.
- c. Landside Development. Items include airport terminal and administrative buildings; hangars; equipment buildings; fixed base operator buildings; and other airport buildings needed in connection with the operation and maintenance of the airport. The building area also includes the tie-down area, transient parking apron, automobile parking, access roads, and walks.
- d. Navigational Aid Facilities. Land may be acquired for the installation, operation, and maintenance of a Sponsor-owned navigational aid or another aid (including a precision approach system) used by aircraft for landing at or taking off from the airport, whether located within or outside of the airport boundary. Also, a relocation site may be acquired for an air traffic control tower and any NAVAIDs (including radar) if the relocation is required by eligible airport development and if the Sponsor is responsible for such relocation.
- e. Installation of Airport Utilities. Right-of-way for drainage, sanitary sewers, storm water runoff, utility lines, etc., that are located outside the airport boundary.
- f. Mitigation of Airspace Conflicts. The resolution of a conflict caused by the proximity of two or more airports, which cannot be resolved by an acceptable operational or design alternative.

In February 2003, the City purchased a parcel of land, including a single family structure, as part of a “through the fence operation” purchase. The term “through the fence operation” refers to the ability of residents of a home, based on the location of the property, to gain improper access to airport runways and facilities without an adequate barrier between the airport and the property. According to the grant application submitted by the City, the land was purchased as a means for protection of the airport approach area. Through the federal Airport Improvement grant program, the City was reimbursed \$114,892 for this land purchase in November 2004.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Airport Improvement Program – Real Property Acquisition and Use (Continued)

Noncompliance Finding – Allowable Activities (Continued)

Since the purchase of this property in February 2003, this property has been utilized for office space and meeting space for various meetings whether airport-related or not. Additionally, for approximately six months during 2004, the property was utilized as a place of residence for the Assistant Finance Director. Providing the property as a residence not only fails to fulfill an airport purpose, but also directly contradicts the original purpose of the acquisition, which was to eliminate a “through the fence operation.”

We recommend the City Manager and City Council evaluate the use of the property obtained through the Airport Improvement Grant and limit such use to only airport purposes. We further recommend, as part of this evaluation, the City consult the Federal Aviation Administration to clarify the current use of airport facilities purchased through the Airport Improvement Program.

CFDA Title and Number	CFDA #20.106 – Airport Improvement Program CFDA #14.228 – Community Development Block Grant – State's Program (CDBG)
Federal Award Number / Year	Airport Improvement Program – 3-39-0037-0504, 3-39-0037-0403 CDBG - A-T-00-124-1, A-C-01-124-1, A-F-02-124-1, A-F-03-124-1
Federal Agency	Airport Improvement Program – U.S. Department of Transportation CDBG - U.S. Department of Housing and Urban Development
Pass-Through Agency	Airport Improvement Program – N/A CDBG – Ohio Department of Development

See findings 2003-023 through 2003-028 above; these findings are also required to be reported in accordance with OMB Circular A-133.



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**CITY OF GALION
CRAWFORD 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
MAY 5, 2005**