



Mary Taylor, CPA
Auditor of State

**CITY OF GALION
CRAWFORD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Auditor of State served during the year ended December 31, 2007, as the City's financial supervisor under Ohio Revised Code §118.05(G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinions.

The financial statements of the Freese Foundation Component Unit (FFCU) were not audited, and we were not engaged to audit the FFCU financial statements as part of our audit of the City's basic financial statements. The FFCU financial activities are included in the City's basic financial statements as a discretely presented component unit.

As described in Note 26, 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 was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code §118.05(G), the Auditor of State served as the City's financial supervisor.

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the FFCU's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Galion, Crawford County, Ohio, as of December 31, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and Police and Fire Income Tax Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditures schedule is required by the 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

October 31, 2008

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED**

The discussion and analysis of the City of Galion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2007 are as follows:

In total, the City's net assets increased almost 19 percent from the prior year; 4 percent for governmental activities and 38 percent for business-type activities. The significant increase for business-type activities was based on revenues exceeding expenses for all three enterprise funds.

General revenues made up 71 percent of the total revenues for governmental activities in 2007, and of this amount, 60 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

Although the City has entered into its fourth year since being declared in fiscal emergency, the City has made significant progress to date. The City has eliminated deficits in several of its funds and, although continuing to maintain a very strict budget, has been able to move forward with several important projects and, in 2008, finally provide a salary increase to its employees who have gone without an increase for three years. While the City is still unable to project when it will emerge from fiscal emergency, this progress reflects the diligence of City officials and employees in regaining financial stability in the City.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City's financial position.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's non-major funds in a single column. The City's major funds are the General Fund, the Police and Fire Levy special revenue fund, and the Water, Sewer, Electric, and Storm Water enterprise funds.

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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(Continued)**

These statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings, streets, bridges, and water, sewer, electric, and storm water lines). These factors must be considered when assessing the overall health of the City.

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

- **Governmental Activities** - Most of the City's programs and services are reported here, including security of persons and property, public health, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.
- **Business-Type Activities** - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water, sewer, electric, and storm water services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General Fund, the Police and Fire Levy special revenue fund, and the Water, Sewer, Electric, and Storm Water enterprise funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for essentially the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

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

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water, sewer, electric, and storm water operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounts for the City's self-insured program for employee health care benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2007 and 2006.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Assets</u>						
Current and Other Assets	\$5,795,731	\$6,066,249	\$18,215,291	\$10,114,835	\$24,011,022	\$16,181,084
Capital Assets, Net	14,422,836	14,819,618	20,765,961	20,690,040	35,188,797	35,509,658
Total Assets	<u>20,218,567</u>	<u>20,885,867</u>	<u>38,981,252</u>	<u>30,804,875</u>	<u>59,199,819</u>	<u>51,690,742</u>
<u>Liabilities</u>						
Current and Other Liabilities	1,560,468	2,537,410	1,990,282	1,912,158	3,550,750	4,449,568
Long-Term Liabilities	3,564,112	3,866,894	21,486,635	17,671,812	25,050,747	21,538,706
Total Liabilities	<u>5,124,580</u>	<u>6,404,304</u>	<u>23,476,917</u>	<u>19,583,970</u>	<u>28,601,497</u>	<u>25,988,274</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	11,790,090	11,210,056	5,794,435	4,586,121	17,584,525	15,796,177
Restricted	2,588,834	3,858,449	0	0	2,588,834	3,858,449
Unrestricted (Deficit)	715,063	(586,942)	9,709,900	6,634,784	10,424,963	6,047,842
Total Net Assets	<u>\$15,093,987</u>	<u>\$14,481,563</u>	<u>\$15,504,335</u>	<u>\$11,220,905</u>	<u>\$30,598,322</u>	<u>\$25,702,468</u>

A review of the above table reflects several significant changes from the prior year for governmental activities. During 2007, the City retired \$630,000 in bond anticipation notes from governmental activities and paid from restricted net assets. Unrestricted net assets increased due to the excess of revenues over expenditures in the General Fund; expenditures decreased \$761,000 from the prior year.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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(Continued)**

For business-type activities, there were also several significant changes. In December 2007, the City issued \$8.9 million in bonds. Of this amount, \$4.3 million was not spent as of the end of the year. In addition, all of the City's enterprise funds had an operating income during 2007 (particularly the electric fund) which provided for additional cash resources on hand at year end. The combination of unspent bond proceeds and additional revenue from operations are reflected in the increase in current and other assets as well as the increase in unrestricted net assets. While the City issued \$8.9 million in new debt, it also retired a long-term loan, in the amount of \$4.9 million, with a portion of these proceeds. As a result, the above table reflects an increase in long-term liabilities for approximately the remainder of the debt issued. The increase in invested in capital assets, net of related debt was due to the retirement of bond anticipation notes.

Table 2 reflects the change in net assets for 2007 and 2006.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$1,322,873	\$1,386,880	\$14,937,097	\$15,147,149	\$16,259,970	\$16,534,029
Operating Grants, Contributions, and Interest	1,016,825	696,263	0	101,514	1,016,825	797,777
Capital Grants and Contributions	186,870	287,686	354,048	0	540,918	287,686
Total Program Revenues	<u>2,526,568</u>	<u>2,370,829</u>	<u>15,291,145</u>	<u>15,248,663</u>	<u>17,817,713</u>	<u>17,619,492</u>
General Revenues						
Property Taxes Levied for General Purposes	426,874	409,294	0	0	426,874	409,294
Property Taxes Levied for Police and Fire Pension	78,445	74,612	0	0	78,445	74,612
Property Taxes Levied for Debt Service	0	7	0	0	0	7
Municipal Income Taxes Levied for General Purposes	1,792,831	1,969,470	0	0	1,792,831	1,969,470
Municipal Income Taxes Levied for Police and Fire	1,699,782	1,406,617	0	0	1,699,782	1,406,617
Municipal Income Taxes Levied for Recreation	214,009	204,383	0	0	214,009	204,383
Other Local Taxes	457,085	429,560	0	0	457,085	429,560
Grants and Entitlements not Restricted to Specific Programs	651,223	843,203	0	0	651,223	843,203
Interest	315,497	177,904	4,595	19,499	320,092	197,403
Other	508,739	537,715	409,409	408,123	918,148	945,838
Total General Revenues	<u>6,144,485</u>	<u>6,052,765</u>	<u>414,004</u>	<u>427,622</u>	<u>6,558,489</u>	<u>6,480,387</u>
Total Revenues	<u>8,671,053</u>	<u>8,423,594</u>	<u>15,705,149</u>	<u>15,676,285</u>	<u>24,376,202</u>	<u>24,099,879</u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<u>Program Expenses</u>						
Security of Persons and Property						
Police	\$1,605,982	\$1,443,775	\$0	\$0	\$1,605,982	\$1,443,775
Fire	1,558,823	1,484,809	0	0	1,558,823	1,484,809
Public Health	366,745	296,931	0	0	366,745	296,931
Leisure Time Activities	236,674	236,908	0	0	236,674	236,908
Community Environment	267,385	257,994	0	0	267,385	257,994
Transportation	1,472,559	1,682,338	0	0	1,472,559	1,682,338
General Government	1,321,247	1,293,046	0	0	1,321,247	1,293,046
Interest and Fiscal Charges	219,721	269,513	0	0	219,721	269,513
Water	0	0	1,707,781	1,614,117	1,707,781	1,614,117
Sewer	0	0	1,470,243	1,367,400	1,470,243	1,367,400
Electric	0	0	9,005,076	8,579,562	9,005,076	8,579,562
Storm Water	0	0	248,112	286,481	248,112	286,481
Total Expenses	<u>7,049,136</u>	<u>6,965,314</u>	<u>12,431,212</u>	<u>11,847,560</u>	<u>19,480,348</u>	<u>18,812,874</u>
Increase in Net Assets						
Before Transfers	1,621,917	1,458,280	3,273,937	3,828,725	4,895,854	5,287,005
Transfers	<u>(1,009,493)</u>	<u>(44,495)</u>	<u>1,009,493</u>	<u>44,495</u>	<u>0</u>	<u>0</u>
Increase in Net Assets	612,424	1,413,785	4,283,430	3,873,220	4,895,854	5,287,005
Net Assets Beginning of Year	<u>14,481,563</u>	<u>13,067,778</u>	<u>11,220,905</u>	<u>7,347,685</u>	<u>25,702,468</u>	<u>20,415,463</u>
Net Assets End of Year	<u>\$15,093,987</u>	<u>\$14,481,563</u>	<u>\$15,504,335</u>	<u>\$11,220,905</u>	<u>\$30,598,322</u>	<u>\$25,702,468</u>

The above table reflects the revenues and expenses for operating the City during 2007. Program revenues for governmental activities increased slightly from the prior year. The City received several grants for the Health Department as well as additional resources for the revolving loan program and an increase in gasoline and motor vehicle license monies; these increases contributed to the increase in operating grants and contributions. General revenues remained very comparable to the prior year with just a 1.5 percent increase overall.

With an increase in governmental expenses of 1.2 percent, expenses also remained consistent with those of the prior year. In reviewing expenses, note that police and fire operations account for almost 45 percent of the City's total expenses and the street department operations account for another 21 percent of total expenses. These three departments, along with the basic costs of city operations (administration, receipt collections, paying bills, etc.), account for 85 percent of all of the City's governmental expenses.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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(Continued)**

As is to be expected, 95 percent of the revenues for business-type activities are received through charges for services provided to the users of the systems. By far, the electric distribution system is the City's largest enterprise as demonstrated by the costs to operate the system. As is the intent of enterprise operations, overall, the costs of the City's four utilities were recovered through user charges and other revenues again in 2007.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Security of Persons and Property				
Police	\$1,605,982	\$1,443,775	\$1,540,678	\$1,363,088
Fire	1,558,823	1,484,809	1,115,777	981,840
Public Health	366,745	296,931	146,301	90,135
Leisure Time Activities	236,674	236,908	224,364	203,906
Community Environment	267,385	257,994	(84,620)	24,602
Transportation	1,472,559	1,682,338	561,236	881,374
General Government	1,321,247	1,293,046	799,111	780,027
Interest and Fiscal Charges	219,721	269,513	219,721	269,513
Total Expenses	\$7,049,136	\$6,965,314	\$4,522,568	\$4,594,485

While the dependence on general revenues to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services provide for 28 percent of the costs of providing fire services. These charges are for ambulance services as well as the amount charged to Polk Township for fire/ambulance services. Charges for services and operating grants provide for 60 percent of public health costs. Operating and capital grants provided revenues in excess of program costs in 2007 for the community environment program, generally in the form of community development block grants and revolving loan monies for various community rehabilitation projects. Charges for services and various grants and contributions provided for 62 percent of transportation costs (the transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes). Program revenues also provided for almost 40 percent of the costs of the general government program. A large portion of this amount is the result of charges to the utility systems for general government services provided to them.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Police and Fire Levy Fund. The General Fund experienced a \$1.4 million increase in fund balance in 2007, a significant improvement from the prior year. Although revenues in the General Fund reflect a slight decrease of 3 percent, the combination of expenditures and subsidies to other funds (transfers out) decreased 8 percent. The primary reason for the decrease in expenditures was due to moving the payment of salaries and benefits for a greater number of police and firefighters to the Police and Fire Levy Fund, instead of making those payments from the General Fund. In addition, due to continued strict monitoring and limited spending from the General Fund (due to the City's fiscal emergency situation), revenues substantially exceeded expenditures for 2007. The Police and Fire Levy Fund had a decrease in fund balance of less than \$1,000.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund net assets, all four funds experienced an operating income in 2007.

In July 2005, the City implemented rate increases for water, sewer, and electric. The City increased rates for both water and sewer again in January 2006, January 2007, and January 2008. These rates will be raised in January 2009 as well. There are no future rate increases currently scheduled for electric. The City has entered into contracts to reevaluate the rates for water, sewer, and electric to ensure they will be sufficient to pay the costs of current operations as well as begin to accumulate resources for capital improvements. These rate studies should be completed in July/August 2008. The City's current five-year forecast indicates that the Water, Sewer, and Storm Water funds will all have deficit balances again by 2012, so the City is anxious for the results of these studies.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, there was no change from the original budget to the final budget; however, there was a 19 percent increase from the final budget to actual revenues received. This was primarily due to conservative estimates for intergovernmental revenues (resources primarily provided by the State) and interest revenues (due to recent volatility and decline in rates). For expenditures, changes from the original budget to the final budget were not significant. There was a 18 percent decrease from the final budget to actual expenditures, again, due to restricting spending as much as possible in the City's efforts towards financial recovery. Also, note that the City did not budget for principal and interest payments on the local government fund notes. In accordance with section 118.17 of the Ohio Revised Code, the City is restricted from budgeting for these expenditures.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2007, was \$14,422,836 and \$20,765,961, respectively (net of accumulated depreciation). Due to the City's fiscal status, very limited capital assets were acquired in 2007. The additions for governmental activities included construction on various park and airport improvements, new shelters at East and Heise parks, some minor street improvements, and three cruisers. The primary additions for business-type activities consisted of continued construction at the sewer treatment plant. Disposals consisted of two trucks. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2007, the City had \$648,000 in revenue anticipation notes payable from governmental activities and \$575,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$11,794,746 in general obligation bonds, \$326,716 in Ohio Public Works Commission loans, and \$9,597,947 in Ohio Water Development Authority loans. Of this debt, \$18,876,663 will be paid from business-type activities.

In addition, the City's long-term obligations also include compensated absences, the liability for police and fire incurred when the State of Ohio established the statewide pension system, capital leases, and a long-term obligation with AMP-Ohio. For further information regarding the City's debt, refer to Notes 17, 18, and 19 to the basic financial statements.

CURRENT ISSUES

As of December 31, 2007, the City has been in fiscal emergency just under three and one-half years, so the City's primary concern continues to be reestablishing positive fund balances and financial stability. While the City's financial statements reflect the tremendous progress the City has made, the City is still unable to project when it will emerge from fiscal emergency.

Despite the fact that the City's financial picture at the end of 2007 reflects ongoing improvement, sacrifices continue to be made throughout the City as the City continues with very restricted spending and another year has gone by with the City being unable to provide salary increases. All City union workers agreed to extend their labor contracts through 2006 and 2007 without hourly wage increases. Fortunately, with some improvement in the City's financial status, the City was able to provide a one-time bonus to all City employees in 2007 to help offset the lack of wage increases and to demonstrate the Administration's recognition of the efforts made by all City employees toward financial recovery. In March 2008, the City negotiated new contracts with all three of the City's unions. Due to improvements in the City's financial status, the City was finally able to provide for salary increases as part of these agreements. All City employees will be receiving a 3 percent increase for 2008, 2009, and 2010.

Another critical step toward the City's recovery was the approval by the voters, in February 2006, of an additional .5 percent income tax levy for police and fire operations. Without the approval of this levy, the City's ability to continue to provide police and fire protection was in question. Collections on this levy began in July 2006 and will continue for five years. It is already apparent, however, that the failure to renew this levy on a permanent basis will be devastating to the City's General Fund. The levy generates approximately \$900,000 annually.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007
UNAUDITED
(Continued)**

With the reestablishment of some financial stability in the City's enterprise funds, in December 2007, the City moved forward with issuing \$575,000 in bond anticipation notes and \$8.9 million in general obligation bonds. The proceeds from the bond anticipation notes are being used for storm water improvements in the Maple Heights area. This area has experienced a good deal of flooding during heavy storms. The \$8.9 million in general obligation bonds was issued for two purposes. First, the City paid off the remainder of a loan with AMP-Ohio, in the amount of \$4.652 million (after principal payments throughout the year). This loan had a variable interest rate that was hovering around 7 percent. The bonds have an interest rate of 5.25 percent. The remainder of the bonds, in the amount of \$4.3 million, will be used to upgrade the Railroad Street electric substation and related distribution system.

Other projects that the City has been able to start in 2007 include a number of improvements at all of the City's parks including a skate park, shelter improvements, a walking path, and upgrading the tennis courts. The City has also started refurbishing the water tower on Brandt Road, started the County Line lift station upgrade, and started a significant storm water improvement in the Arlington Avenue area. Work also continues on the sewer treatment plant upgrades as well as improvements at the airport which include the master plan study, layout plan, runway rehabilitation, and terminal apron (all part of the Five-Year Airport Capital Improvement Program).

While 2007 offered many positives to the City's financial picture, the inability to determine an end to the fiscal emergency makes evident the significant challenges still ahead of the City. One major obstacle for the City to resolve is how to eliminate the deficit in the Street Maintenance fund. With a cash deficit of \$1,000,292 at the end of 2007, this is a very difficult issue for the City to resolve. The revenue sources in this fund are generally limited to motor vehicle license and gas tax monies received from the State. Additional motor vehicles license fees are levied by the City and those resources are also used for street improvement purposes. The City approved a \$10 increase in these fees (bringing the local levied amount to \$20); however, this will only generate approximately \$100,000 for the City annually beginning in 2008. Once the deficit in Street Improvement fund (deficit of \$212,102) is eliminated, these resources will certainly help, but will not resolve the Street Maintenance fund problem.

In conclusion, the City has made great strides, but has a long way to go to achieve financial stability. With efforts by the Administration, City employees, and the citizens of Galion, this goal will be achieved.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Mike Weiland, Finance Director, City of Galion, 115 Harding Way East, Galion, Ohio 44833.

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**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,172,108	\$13,144,829	\$15,316,937	\$0
Cash and Cash Equivalents with Fiscal Agent	81,147	356,378	437,525	0
Investments in Segregated Accounts	0	0	0	9,856,994
Accounts Receivable	50,875	2,625,295	2,676,170	0
Due from Other Governments	659,830	210,711	870,541	0
Municipal Income Taxes Receivable	938,499	0	938,499	0
Other Local Taxes Receivable	10,329	0	10,329	0
Excise Taxes Receivable	0	42,800	42,800	0
Internal Balances	460,918	(460,918)	0	0
Prepaid Items	32,210	24,529	56,739	0
Materials and Supplies Inventory	75,884	35,647	111,531	0
Property Taxes Receivable	529,998	0	529,998	0
Notes Receivable	783,933	0	783,933	0
Special Assessments Receivable	0	508,841	508,841	0
Nondepreciable Capital Assets	3,784,889	3,106,192	6,891,081	0
Depreciable Capital Assets, Net	10,637,947	17,659,769	28,297,716	0
Investment in Joint Venture	0	1,727,179	1,727,179	0
	<u>20,218,567</u>	<u>38,981,252</u>	<u>59,199,819</u>	<u>9,856,994</u>
Total Assets				
<u>Liabilities</u>				
Accrued Wages Payable	65,640	28,452	94,092	0
Accounts Payable	52,793	640,201	692,994	0
Contracts Payable	13,170	373,227	386,397	0
Due to Other Governments	175,049	80,156	255,205	0
Retainage Payable	9,014	28,110	37,124	0
Accrued Interest Payable	32,261	29,343	61,604	0
Notes Payable	648,000	575,000	1,223,000	0
Deferred Revenue	492,510	0	492,510	0
Claims Payable	72,031	0	72,031	0
Deposits Held and Due to Others	0	235,793	235,793	0
Long-Term Liabilities				
Due Within One Year	603,496	783,477	1,386,973	0
Due in More Than One Year	2,960,616	20,703,158	23,663,774	0
	<u>5,124,580</u>	<u>23,476,917</u>	<u>28,601,497</u>	<u>0</u>
Total Liabilities				
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt Restricted for	11,790,090	5,794,435	17,584,525	0
Capital Projects	305,396	0	305,396	0
Debt Service	220,292	0	220,292	0
Police and Fire	835,455	0	835,455	0
Revolving Loans	951,372	0	951,372	0
Other Purposes	276,319	0	276,319	0
Unrestricted	715,063	9,709,900	10,424,963	9,856,994
	<u>\$15,093,987</u>	<u>\$15,504,335</u>	<u>\$30,598,322</u>	<u>\$9,856,994</u>
Total Net Assets				

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,605,982	\$40,507	\$24,797	\$0
Fire	1,558,823	435,219	7,827	0
Public Health	366,745	179,909	40,535	0
Leisure Time Activities	236,674	7,085	5,225	0
Community Environment	267,385	0	323,147	28,858
Transportation	1,472,559	219,822	545,239	146,262
General Government	1,321,247	440,331	70,055	11,750
Interest and Fiscal Charges	219,721	0	0	0
Total Governmental Activities	7,049,136	1,322,873	1,016,825	186,870
<u>Business-Type Activities</u>				
Water	1,707,781	1,750,376	0	0
Sewer	1,470,243	1,702,540	0	354,048
Electric	9,005,076	11,107,308	0	0
Storm Water	248,112	376,873	0	0
Total Business-Type Activities	12,431,212	14,937,097	0	354,048
Total Primary Government	\$19,480,348	\$16,259,970	\$1,016,825	\$540,918
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$587,589	\$0	\$0	\$0
Total	\$20,067,937	\$16,259,970	\$1,016,825	\$540,918

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Police and Fire Pension
Municipal Income Taxes Levied for General Purposes
Municipal Income Taxes Levied for Police and Fire
Municipal Income Taxes Levied for Recreation
Other Local Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$1,540,678)	\$0	(\$1,540,678)	\$0
(1,115,777)	0	(1,115,777)	0
(146,301)	0	(146,301)	0
(224,364)	0	(224,364)	0
84,620	0	84,620	0
(561,236)	0	(561,236)	0
(799,111)	0	(799,111)	0
(219,721)	0	(219,721)	0
<u>(4,522,568)</u>	<u>0</u>	<u>(4,522,568)</u>	<u>0</u>
0	42,595	42,595	0
0	586,345	586,345	0
0	2,102,232	2,102,232	0
0	128,761	128,761	0
<u>0</u>	<u>2,859,933</u>	<u>2,859,933</u>	<u>0</u>
<u>(4,522,568)</u>	<u>2,859,933</u>	<u>(1,662,635)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(587,589)</u>
<u>(4,522,568)</u>	<u>2,859,933</u>	<u>(1,662,635)</u>	<u>(587,589)</u>
426,874	0	426,874	0
78,445	0	78,445	0
1,792,831	0	1,792,831	0
1,699,782	0	1,699,782	0
214,009	0	214,009	0
457,085	0	457,085	0
651,223	0	651,223	0
315,497	4,595	320,092	775,883
508,739	409,409	918,148	0
<u>6,144,485</u>	<u>414,004</u>	<u>6,558,489</u>	<u>775,883</u>
<u>(1,009,493)</u>	<u>1,009,493</u>	<u>0</u>	<u>0</u>
<u>5,134,992</u>	<u>1,423,497</u>	<u>6,558,489</u>	<u>775,883</u>
612,424	4,283,430	4,895,854	188,294
<u>14,481,563</u>	<u>11,220,905</u>	<u>25,702,468</u>	<u>9,668,700</u>
<u>\$15,093,987</u>	<u>\$15,504,335</u>	<u>\$30,598,322</u>	<u>\$9,856,994</u>

**CITY OF GALION
CRAWFORD COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$781,920	\$459,153	\$925,437	\$2,166,510
Accounts Receivable	49,365	0	1,510	50,875
Due from Other Governments	356,877	217	302,736	659,830
Municipal Income Taxes Receivable	469,249	421,239	48,011	938,499
Other Local Taxes Receivable	914	0	9,415	10,329
Interfund Receivable	1,639,714	0	71,806	1,711,520
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	5,598	0	0	5,598
Cash and Cash Equivalents with Fiscal Agent	81,147	0	0	81,147
Prepaid Items	24,191	0	8,019	32,210
Materials and Supplies Inventory	0	0	75,884	75,884
Property Taxes Receivable	448,048	0	81,950	529,998
Notes Receivable	0	0	783,933	783,933
Total Assets	\$3,857,023	\$880,609	\$2,308,701	\$7,046,333
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$21,967	\$37,347	\$6,326	\$65,640
Accounts Payable	18,576	582	29,199	48,357
Contracts Payable	0	0	13,170	13,170
Due to Other Governments	68,788	44,906	61,355	175,049
Retainage Payable	0	0	9,014	9,014
Interfund Payable	0	0	1,258,851	1,258,851
Accrued Interest Payable	19,035	0	0	19,035
Notes Payable	648,000	0	0	648,000
Deferred Revenue	1,071,725	324,492	343,560	1,739,777
Total Liabilities	1,848,091	407,327	1,721,475	3,976,893
<u>Fund Balance</u>				
Reserved for Future Debt Service	81,147	0	0	81,147
Reserved for Unclaimed Monies	5,598	0	0	5,598
Reserved for Notes Receivable	0	0	717,905	717,905
Reserved for Encumbrances	63,260	0	125,624	188,884
<u>Unreserved, Reported in</u>				
General Fund	1,858,927	0	0	1,858,927
Special Revenue Funds (Deficit)	0	473,282	(670,045)	(196,763)
Debt Service Funds	0	0	159,437	159,437
Capital Projects Funds	0	0	254,305	254,305
Total Fund Balance	2,008,932	473,282	587,226	3,069,440
Total Liabilities and Fund Balance	\$3,857,023	\$880,609	\$2,308,701	\$7,046,333

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2007**

Total Governmental Fund Balance	\$3,069,440
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,422,836
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	24,948	
Due from Other Governments	463,740	
Municipal Income Taxes Receivable	721,091	
Property Taxes Receivable	37,488	
		1,247,267

An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.	40,132
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Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(13,226)	
General Obligation Bonds Payable	(2,842,746)	
Compensated Absences Payable	(591,635)	
Police Pension Liability	(27,081)	
Fire Pension Liability	(102,650)	
		(3,577,338)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.	(108,350)
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Net Assets of Governmental Activities	\$15,093,987
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See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$425,636	\$0	\$78,219	\$503,855
Municipal Income Taxes	1,957,498	1,847,981	230,476	4,035,955
Other Local Taxes	457,085	0	102,418	559,503
Charges for Services	1,013,289	0	124,452	1,137,741
Fees, Licenses, and Permits	54,517	0	0	54,517
Fines and Forfeitures	27,830	0	8,706	36,536
Intergovernmental	700,181	0	1,058,937	1,759,118
Interest	315,335	0	36,192	351,527
Other	24,369	1,349	489,382	515,100
Total Revenues	4,975,740	1,849,330	2,128,782	8,953,852
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	589,166	873,169	186,871	1,649,206
Fire	283,280	956,722	248,916	1,488,918
Public Health	357,579	0	0	357,579
Leisure Time Activities	0	0	490,962	490,962
Community Environment	0	0	267,385	267,385
Transportation	0	0	862,366	862,366
General Government	1,196,894	0	87,912	1,284,806
Debt Service:				
Principal Retirement	15,539	20,000	1,066,032	1,101,571
Interest and Fiscal Charges	42,571	396	180,870	223,837
Total Expenditures	2,485,029	1,850,287	3,391,314	7,726,630
Excess of Revenues Over (Under) Expenditures	2,490,711	(957)	(1,262,532)	1,227,222
<u>Other Financing Sources (Uses)</u>				
General Obligation Bonds Issued	62,295	0	0	62,295
Transfers In	0	0	1,197,783	1,197,783
Transfers Out	(1,125,553)	0	(1,081,723)	(2,207,276)
Total Other Financing Sources (Uses)	(1,063,258)	0	116,060	(947,198)
Changes in Fund Balance	1,427,453	(957)	(1,146,472)	280,024
Fund Balance Beginning of Year	581,479	474,239	1,733,698	2,789,416
Fund Balance End of Year	<u>\$2,008,932</u>	<u>\$473,282</u>	<u>\$587,226</u>	<u>\$3,069,440</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

Changes in Fund Balance - Total Governmental Funds \$280,024

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

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

Capital Outlay - Nondepreciable Capital Assets	318,427	
Capital Outlay - Depreciable Capital Assets	209,440	
Depreciation	<u>(924,649)</u>	(396,782)

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

Property Taxes	1,464	
Municipal Income Taxes	(329,333)	
Charges for Services	(8,395)	
Intergovernmental	<u>53,695</u>	(282,569)

Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets.

Notes Payable	639,582	
General Obligation Bonds Payable	459,529	
Police Pension Liability	514	
Fire Pension Liability	<u>1,946</u>	1,101,571

Bond proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (62,295)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 4,116

Compensated absences expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (96,912)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 65,271

Change in Net Assets of Governmental Activities \$612,424

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$462,402	\$462,402	\$425,636	(\$36,766)
Municipal Income Taxes	1,781,602	1,781,602	2,020,009	238,407
Other Local Taxes	434,459	434,459	455,275	20,816
Charges for Services	1,164,008	1,164,008	953,134	(210,874)
Fees, Licenses, and Permits	24,000	24,000	54,517	30,517
Fines and Forfeitures	24,000	24,000	27,237	3,237
Intergovernmental	300,729	300,729	707,858	407,129
Interest	50,000	50,000	316,349	266,349
Other	0	0	13,873	13,873
Total Revenues	4,241,200	4,241,200	4,973,888	732,688
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	666,701	733,501	595,810	137,691
Fire	429,610	440,610	329,074	111,536
Public Health	425,816	425,816	355,799	70,017
General Government	1,579,114	1,719,014	1,367,645	351,369
Debt Service:				
Principal Retirement	0	15,540	102,539	(86,999)
Interest and Fiscal Charges	0	1,950	45,127	(43,177)
Total Expenditures	3,101,241	3,336,431	2,795,994	540,437
Excess of Revenues Over Expenditures	1,139,959	904,769	2,177,894	1,273,125
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	0	0	16,206	16,206
General Obligation Bonds Issued	0	0	62,295	62,295
Transfers Out	(1,530,144)	(1,444,954)	(1,125,553)	319,401
Total Other Financing Sources (Uses)	(1,530,144)	(1,444,954)	(1,047,052)	397,902
Changes in Fund Balance	(390,185)	(540,185)	1,130,842	1,671,027
Fund Balance Beginning of Year	881,622	881,622	881,622	0
Fund Balance End of Year	\$491,437	\$341,437	\$2,012,464	\$1,671,027

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
POLICE AND FIRE LEVY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues</u>				
Municipal Income Taxes	\$1,548,987	\$1,548,987	\$1,825,558	\$276,571
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	802,309	878,809	854,109	24,700
Fire	838,094	960,594	941,467	19,127
Debt Service:				
Principal Retirement	20,000	20,000	20,000	0
Interest and Fiscal Charges	461	461	396	65
Total Expenditures	1,660,864	1,859,864	1,815,972	43,892
Excess of Revenues Over (Under) Expenditures	(111,877)	(310,877)	9,586	320,463
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	1,132	1,132
Changes in Fund Balance	(111,877)	(310,877)	10,718	321,595
Fund Balance Beginning of Year	448,435	448,435	448,435	0
Fund Balance End of Year	<u>\$336,558</u>	<u>\$137,558</u>	<u>\$459,153</u>	<u>\$321,595</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF GALION
CRAWFORD COUNTY

STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
Assets						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$1,510,737	\$1,755,041	\$7,333,495	\$2,309,763	\$12,909,036	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	356,378	0	356,378	0
Accounts Receivable	308,431	265,759	1,996,466	54,639	2,625,295	0
Due from Other Governments	174	210,267	224	46	210,711	0
Excise Taxes Receivable	0	0	42,800	0	42,800	0
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	65,305	63,050	107,438	0	235,793	0
Prepaid Items	5,740	5,590	11,576	1,623	24,529	0
Materials and Supplies Inventory	19,500	16,040	107	0	35,647	0
Special Assessments Receivable	10,742	17,527	0	0	28,269	0
Total Current Assets	1,920,629	2,333,274	9,848,484	2,366,071	16,468,458	0
<u>Non-Current Assets</u>						
Special Assessments Receivable	182,618	297,954	0	0	480,572	0
Nondepreciable Capital Assets	1,003,420	1,889,483	192,784	20,505	3,106,192	0
Depreciable Capital Assets, Net	7,462,122	4,364,725	5,101,107	731,815	17,659,769	0
Investment in Joint Venture	0	0	1,727,179	0	1,727,179	0
Total Non-Current Assets	8,648,160	6,552,162	7,021,070	752,320	22,973,712	0
Total Assets	10,568,789	8,885,436	16,869,554	3,118,391	39,442,170	0
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	7,405	8,977	11,193	877	28,452	0
Accounts Payable	15,557	18,901	605,398	345	640,201	4,436
Contracts Payable	44,094	299,484	19,310	10,339	373,227	0
Due to Other Governments	23,047	21,173	33,203	2,733	80,156	0
Retainage Payable	6,000	22,110	0	0	28,110	0
Compensated Absences Payable	30,095	17,235	22,253	1,647	71,230	0
Interfund Payable	109,565	108,351	182,926	19,944	420,786	31,883
Accrued Interest Payable	0	0	28,563	780	29,343	0
Notes Payable	0	0	0	575,000	575,000	0
Claims Payable	0	0	0	0	0	72,031
General Obligations Bonds Payable	0	0	301,000	0	301,000	0
OPWC Loans Payable	10,555	26,907	0	0	37,462	0
OWDA Loans Payable	191,152	38,742	0	0	229,894	0
Capital Leases Payable	0	0	0	27,830	27,830	0
AMP Ohio Payable	0	0	116,061	0	116,061	0
Total Current Liabilities	437,470	561,880	1,319,907	639,495	2,958,752	108,350
<u>Non-Current Liabilities</u>						
Deposits Held and Due to Others	65,305	63,050	107,438	0	235,793	0
Compensated Absences Payable	73,413	100,262	169,473	6,894	350,042	0
General Obligations Bonds Payable	0	0	8,651,000	0	8,651,000	0
OPWC Loans Payable	154,718	134,536	0	0	289,254	0
OWDA Loans Payable	6,480,250	2,887,803	0	0	9,368,053	0
Capital Leases Payable	0	0	0	92,033	92,033	0
AMP Ohio Payable	0	0	1,952,776	0	1,952,776	0
Total Non-Current Liabilities	6,773,686	3,185,651	10,880,687	98,927	20,938,951	0
Total Liabilities	7,211,156	3,747,531	12,200,594	738,422	23,897,703	108,350
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	1,628,867	3,166,220	366,891	632,457	5,794,435	0
Unrestricted (Deficit)	1,728,766	1,971,685	4,302,069	1,747,512	9,750,032	(108,350)
Total Net Assets (Deficit)	\$3,357,633	\$5,137,905	\$4,668,960	\$2,379,969	\$15,544,467	(\$108,350)

Net assets reported for business-type activities on the statement of net assets are different because they include a proportionate share of the balance of the internal service fund.

(40,132)

Net assets of business-type activities

\$15,504,335

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
Operating Revenues						
Charges for Services	\$1,750,376	\$1,702,540	\$11,107,308	\$376,873	\$14,937,097	\$1,425,847
Other	50,880	25,207	332,316	273	408,676	122
Total Operating Revenues	1,801,256	1,727,747	11,439,624	377,146	15,345,773	1,425,969
Operating Expenses						
Salaries	413,876	383,881	612,633	75,687	1,486,077	0
Benefits	246,384	265,175	354,878	47,578	914,015	0
Contractual Services	138,871	172,585	7,033,918	37,122	7,382,496	311,897
Materials and Supplies	245,654	205,429	154,452	17,066	622,601	0
Bad Debt	16,473	15,231	95,977	3,600	131,281	0
Claims	0	0	0	0	0	1,010,467
Depreciation	347,397	212,826	183,874	39,856	783,953	0
Other	109,565	108,351	143,504	19,944	381,364	0
Total Operating Expenses	1,518,220	1,363,478	8,579,236	240,853	11,701,787	1,322,364
Operating Income	283,036	364,269	2,860,388	136,293	3,643,986	103,605
Non-Operating Revenues (Expenses)						
Interest Revenue	0	0	4,595	0	4,595	0
Interest Expense	(201,061)	(117,882)	(331,587)	(8,026)	(658,556)	0
Income from Joint Venture	0	0	733	0	733	0
Loss from Joint Venture	0	0	(109,203)	0	(109,203)	0
Total Non-Operating Revenues (Expenses)	(201,061)	(117,882)	(435,462)	(8,026)	(762,431)	0
Income before Capital Contributions and Transfers	81,975	246,387	2,424,926	128,267	2,881,555	103,605
Capital Contributions	0	354,048	0	0	354,048	0
Transfers In	532,245	549,478	0	70,720	1,152,443	0
Transfers Out	(62,530)	(80,420)	0	0	(142,950)	0
Changes in Net Assets	551,690	1,069,493	2,424,926	198,987	4,245,096	103,605
Net Assets (Deficit) Beginning of Year	2,805,943	4,068,412	2,244,034	2,180,982		(211,955)
Net Assets (Deficit) End of Year	\$3,357,633	\$5,137,905	\$4,668,960	\$2,379,969		(\$108,350)

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

38,334

Change in net assets of business-type activities

\$4,283,430

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$1,747,528	\$1,714,537	\$11,097,708	\$379,857	\$14,939,630	\$0
Cash Received from						
Transactions with Other Funds	0	0	0	0	0	1,425,847
Cash Received from Deposits	32,579	31,738	115,462	0	179,779	0
Cash Received from Other Revenues	50,706	25,030	332,092	227	408,055	122
Cash Payments for Salaries	(408,695)	(395,047)	(562,941)	(80,336)	(1,447,019)	0
Cash Payments for Benefits	(244,881)	(263,341)	(351,218)	(48,817)	(908,257)	0
Cash Payments for Contractual Services	(138,294)	(180,657)	(6,957,876)	(36,818)	(7,313,645)	(317,637)
Cash Payments for Materials and Supplies	(243,478)	(205,343)	(164,841)	(17,067)	(630,729)	0
Cash Payments for Claims	0	0	0	0	0	(1,136,873)
Cash Payments for Other Expenses	(93,196)	(89,877)	(132,415)	(21,163)	(336,651)	0
Cash Payments for Deposits Refunded	(27,860)	(26,734)	(111,949)	0	(166,543)	0
Net Cash Provided by (Used for) Operating Activities	<u>674,409</u>	<u>610,306</u>	<u>3,264,022</u>	<u>175,883</u>	<u>4,724,620</u>	<u>(28,541)</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Advances In	0	0	0	0	0	31,883
Advances Out	0	0	0	0	0	(3,342)
Transfers In	0	0	0	70,720	70,720	0
Transfers Out	(51,621)	(62,621)	0	0	(114,242)	0
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(51,621)</u>	<u>(62,621)</u>	<u>0</u>	<u>70,720</u>	<u>(43,522)</u>	<u>28,541</u>
<u>Cash Flows from Capital and Related Financing Activities</u>						
Grants	0	153,140	0	0	153,140	0
Principal Paid on OPWC Loans	(10,555)	(26,907)	0	0	(37,462)	0
Principal Paid on OWDA Loans	(172,530)	(47,091)	0	0	(219,621)	0
Principal Paid on Electric Improvement Loan	0	0	(4,927,000)	0	(4,927,000)	0
Principal Paid on Capital Leases	0	0	0	(26,518)	(26,518)	0
Principal Paid on AMP Ohio Payable	0	0	(110,586)	0	(110,586)	0
Interest Paid on OWDA Loans	(184,269)	(92,420)	0	0	(276,689)	0
Interest Paid on Electric Improvement Loan	0	0	(225,277)	0	(225,277)	0
Interest Paid on Capital Leases	0	0	0	(7,246)	(7,246)	0
Interest Paid on AMP Ohio Payable	0	0	(93,369)	0	(93,369)	0
Bond Anticipation Notes Issued	0	0	0	575,000	575,000	0
General Obligation Bonds Issued	0	0	8,952,000	0	8,952,000	0
OWDA Loans Issued	0	186,885	0	0	186,885	0
Acquisition of Capital Assets	(71,095)	(351,116)	(30,540)	(10,166)	(462,917)	0
Net Cash Provided By (Used for) Capital and Related Financing Activities	<u>(438,449)</u>	<u>(177,509)</u>	<u>3,565,228</u>	<u>531,070</u>	<u>3,480,340</u>	<u>0</u>
<u>Cash Flows from Investing Activities</u>						
Interest	0	0	4,595	0	4,595	0
Net Increase in Cash and Cash Equivalents	184,339	370,176	6,833,845	777,673	8,166,033	0
Cash and Cash Equivalents Beginning of Year	<u>1,391,703</u>	<u>1,447,915</u>	<u>963,466</u>	<u>1,532,090</u>	<u>5,335,174</u>	<u>0</u>
Cash and Cash Equivalents End of Year	<u><u>\$1,576,042</u></u>	<u><u>\$1,818,091</u></u>	<u><u>\$7,797,311</u></u>	<u><u>\$2,309,763</u></u>	<u><u>\$13,501,207</u></u>	<u><u>\$0</u></u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Reconciliation of Operating Income to Net</u>						
<u>Cash Provided by (Used for) Operating Activities</u>						
Operating Income	\$283,036	\$364,269	\$2,860,388	\$136,293	\$3,643,986	\$103,605
<u>Adjustments to Reconcile Operating Income to Net</u>						
<u>Cash Provided by (Used for) Operating Activities</u>						
Allowance for Uncollectibles	16,473	15,231	95,977	3,600	131,281	0
Depreciation	347,397	212,826	183,874	39,856	783,953	0
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(2,681)	12,269	(9,600)	2,984	2,972	0
Increase in Due from Other Governments	(174)	(177)	(224)	(46)	(621)	0
Increase in Excise Taxes Receivable	0	0	(1,191)	0	(1,191)	0
(Increase) Decrease in Prepaid Items	397	112	579	(20)	1,068	0
Increase in Materials and Supplies Inventory	(1,122)	(9,809)	(107)	0	(11,038)	0
Increase in Special Assessments Receivable	(167)	(272)	0	0	(439)	0
Increase in Accrued Wages Payable	785	2,340	3,007	124	6,256	0
Increase (Decrease) in Accounts Payable	4,721	2,973	59,904	73	67,671	(5,740)
Increase (Decrease) in Contracts Payable	(3,992)	(1,763)	4,380	0	(1,375)	0
Increase (Decrease) in Due to Other Governments	4,252	2,335	4,852	(989)	10,450	0
Increase (Decrease) in Compensated Absences Payable	4,396	(13,506)	46,685	(4,773)	32,802	0
Increase (Decrease) in Interfund Payable	16,369	18,474	11,985	(1,219)	45,609	0
Increase in Deposits Held and Due to Others	4,719	5,004	3,513	0	13,236	0
Decrease in Claims Payable	0	0	0	0	0	(126,406)
Net Cash Provided by (Used for) Operating Activities	<u>\$674,409</u>	<u>\$610,306</u>	<u>\$3,264,022</u>	<u>\$175,883</u>	<u>\$4,724,620</u>	<u>(\$28,541)</u>
<u>Non-Cash Capital Transaction</u>						

At December 31, 2007, the Sewer enterprise fund had a receivable for grants related to capital assets, in the amount of \$210,090.

See Accompanying Notes to the Basic Financial Statements

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**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 1 - DESCRIPTION OF THE CITY OF GALION AND THE REPORTING ENTITY

A. The City

The City of Galion (City) is a charter municipal corporation founded in 1842, with the charter adopted by the electors on January 1, 1986. The City may exercise all powers of home rule granted under Article XVIII, Section 3, of the Ohio Constitution not in conflict with applicable general laws in Ohio.

The City operates under a council and full-time city manager form of government. Services provided include police protection, fire protection, ambulance, health services, parks and recreation, airport facilities, street maintenance and repair, and water, sewer, electric, and storm water services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by City Council through the budgetary process and by the City Manager through administrative and managerial procedures.

B. Reporting Entity

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

The primary government of the City of Galion consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Galion, this includes all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

Discretely Presented Component Unit

The component unit column on the financial statements identifies the financial data of the City's component unit, the Egbert M. Freese Foundation. It is reported separately to emphasize that it is legally separate from the City. Information about this component unit is presented in Note 21 to the basic financial statements.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 1 - DESCRIPTION OF THE CITY OF GALION AND THE REPORTING ENTITY (continued)

Egbert M. Freese Foundation - The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is 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 liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is 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 citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2007, the City received \$480,000 from the Foundation. The Foundation is a component unit of the City since the nature and significance of the Foundation's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Information on the Foundation may be obtained from the Law Offices of Hottenroth, Garverick, Tilson & Co., L.P.A., 126 South Market Street, P.O. Box 477, Galion, Ohio 44833.

The City of Galion participates in two joint ventures, a jointly governed organization, an insurance pool, and a related organization. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1), the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), the Galion/Polk Township Community Improvement Corporation, the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan, and the Galion Public Library. These organizations are presented in Notes 22, 23, 24, and 25 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are reported in two categories, governmental and proprietary.

Governmental Funds

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following are the City's major governmental funds:

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

Police and Fire Levy Fund - The Police and Fire Levy special revenue fund accounts for voted .39 and .5 percent income tax levies to provide resources for operating the police and fire departments.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The City reports two types of proprietary funds, enterprise and internal service:

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

Water Fund - This fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - This fund accounts for the provision of sanitary sewer service to residential and commercial users within the City.

Electric Fund - This fund accounts for the provision of electricity to residential and commercial users within the City.

Storm Water Fund - This fund accounts for the operation of the storm water collection system within the City.

Internal Service - The internal service fund accounts for the financing of services provided by one department to other departments of the City on a cost reimbursement basis. The City's internal service fund accounts for the activities of the self insurance program for employee health care benefits.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2007, but were levied to finance 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

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

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

E. Budgetary Process

All funds are required to be budgeted and appropriated. The major documents prepared are the statement of fund activities, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. 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 ordinance 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, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by City Council.

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Investments

To improve cash management, cash received by the City, except cash held by fiscal agents, is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents held for the City by the Bank of New York, who services the City's local government fund debt, and by AMP-Ohio are included on the financial statements as "Cash and Cash Equivalents with Fiscal Agent".

During fiscal year 2007, the City invested in mutual funds. The mutual funds are reported at fair value, which is based on current share price.

Interest earnings are allocated to City funds according to State statutes, City charter, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2007 was \$315,335, which includes \$260,160 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets represent certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

Unclaimed monies that have a legal restriction on their use are reported as restricted.

Utility deposits from customers are classified as restricted assets on the statement of fund net assets because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of ten thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	30-100 years	30-100 years
Improvements Other Than Buildings	25 years	50-100 years
Streets	10-30 years	N/A
Bridges	50 years	N/A
Water, Sewer, Electric, and Storm Water Lines	N/A	50 years
Equipment	10-20 years	15-50 years
Vehicles	5-30 years	10-15 years

K. Interfund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances".

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's union contracts. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service with the City.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. General obligation bonds and the police and fire pension liability are recognized as liabilities on the fund financial statements when due.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for maintenance and repair of streets and highways, recreation, police and fire department activities, and airport facilities. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2007, the City did not have any net assets restricted by enabling legislation.

O. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for future debt service, unclaimed monies, notes receivable, and encumbrances.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer, electric, and storm water services, as well as premiums charged to various funds for insurance. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

Q. Interfund Transactions

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

R. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this statement for both the Ohio Public Employees Retirement System and the Ohio Police and Fire Pension System postemployment healthcare plans, in the amount of \$29,591 and \$15,820, respectively, which are the same as the previously reported liabilities.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2007, the following funds had deficit fund balances/net assets:

<u>Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
Street Maintenance	\$883,031
Permissive MVL	202,687
Police Pension	15,887
Fire Pension	22,581
<u>Fund</u>	<u>Deficit</u>
Nonmajor Debt Service Fund	
Cheshire Special Assessment	\$71,806
Internal Service Fund	
Self-Insurance	108,350

The deficit fund balances in the special revenue funds and the debt service fund resulted from adjustments for accrued liabilities. In addition, the Street Maintenance and Permissive MVL special revenue funds had expenditures in excess of revenues for a number of previous years contributing to the current deficit. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

The deficit net assets in the Self Insurance internal service fund is due to claims expenses exceeding premiums charged for insurance coverage. In 2008, the City modified its health insurance program. The City continues to be self insured for vision and dental; however, is no longer self insured for medical and prescription coverage. This change will alleviate the deficit situation.

B. Compliance

The City's budgetary activity has amounts that ordinarily would result in noncompliance citations under Ohio Revised Code Chapter 5705. However, because the City is in fiscal emergency, its financial operations fall under the guidelines of Chapter 118. Therefore, citations related to Chapter 5705 are presented only for items not affected by Chapter 118.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

	General	Police and Fire Levy
GAAP Basis	\$1,427,453	(\$957)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2006, Received in Cash 2007	687,084	74,324
Accrued 2007, Not Yet Received in Cash	(673,744)	(96,964)
Expenditure Accruals:		
Accrued 2006, Paid in Cash 2007	(290,835)	(48,520)
Accrued 2007, Not Yet Paid in Cash	128,366	82,835
Cash Accruals:		
Unrecorded Activity 2006	11,917	0
Unrecorded Activity 2007	(10,903)	0
Prepaid Items	2,500	0
Note Principal Retirement	(87,000)	0
Encumbrances Outstanding at Year End (Budget Basis)	(63,996)	0
Budget Basis	\$1,130,842	\$10,718

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

The City follows State statutes regarding its deposit and investment activity. State statutes classify monies held by the City into three categories.

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

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

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

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

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

1. United States Treasury 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 listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

Investments

As of December 31, 2007, the City's investments consisted of mutual funds, with a fair value of \$81,147 and an average maturity not to exceed 60 days. The mutual funds carry a credit rating of Aaa from Moody's. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that mutual funds in eligible securities be rated in the highest category at the time of purchase by at least one nationally recognized standard of rating service.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2007, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for property taxes, notes receivable, special assessments, and the allowance for uncollectibles related to utility services. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$717,905, will not be received within one year. Special assessments, in the amount of \$480,572, will not be received within one year. There were no delinquent special assessments as of year end.

A summary of accounts receivable related to utility services is as follows:

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$370,291	\$325,980	\$2,390,045	\$67,698	\$3,154,014
Less Allowance for Uncollectibles	(61,860)	(60,221)	(393,579)	(13,059)	(528,719)
Net Accounts Receivable	<u>\$308,431</u>	<u>\$265,759</u>	<u>\$1,996,466</u>	<u>\$54,639</u>	<u>\$2,625,295</u>

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant. The notes have an annual interest rate of 3 to 4 percent and are paid over a period of 5 to 15 years.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 7 - RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$31,310
Personal Property Phase-Out	5,042
Local Government	91,274
Local Government Revenue Assistance	99,348
Beer and Liquor Permits	767
Cigarette Taxes	282
Estate Taxes	108,899
Fines and Forfeitures	1,855
State of Ohio	739
Victims of Crime	11,639
Help Me Grow	300
Immunization Action Plan	1,464
Public Health Infrastructure	3,958
Total General Fund	356,877
Police and Fire Levy	
State of Ohio	217
Total Major Funds	357,094
Nonmajor Funds	
Police Drug	
Crawford County	56
Street Maintenance	
Gasoline Tax	169,338
Motor Vehicle License Tax	96,263
State of Ohio	83
Total Street Maintenance	265,684
Nonmajor Funds	
State Highway	
Gasoline Tax	13,730
Motor Vehicle License Tax	3,076
Total State Highway	16,806
Recreation	
State of Ohio	43
FAA	
FAA	3,990
FEMA	
FEMA	9,501
Airport	
State of Ohio	16
Police Pension	
Homestead and Rollback	2,861
Personal Property Phase-Out	459
Total Police Pension	3,320

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Fire Pension	
Homestead and Rollback	\$2,861
Personal Property Phase-Out	459
Total Fire Pension	3,320
Total Nonmajor Funds	302,736
Total Governmental Activities	\$659,830
Business-Type Activities	
Water	
State of Ohio	\$174
Sewer	
State of Ohio	177
Issue II	92,027
Stag	118,063
Total Sewer	210,267
Electric	
State of Ohio	224
Storm Water	
State of Ohio	46
Total Business-Type Activities	\$210,711

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a two-thirds credit for tax paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City's income tax rate includes 1 percent authorized by State statute and levied by the City Council; .89 percent to be used exclusively for increased police and fire protection services, fire suppression equipment and structures, and an ambulance subsidy, and .11 percent to be used exclusively for recreation purposes and the acquisition of real estate for recreation.

The receipts of the City income tax and the administrative costs associated with their collection are accounted for in the General Fund and the Police and Fire Levy and Recreation special revenue funds.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid 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 BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 9 - PROPERTY TAXES (continued)

Public utility property tax revenues received in 2007 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2007 became a lien on December 31, 2005, were levied after October 1, 2006, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2007, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

The full tax rate for all City operations for the year ended December 31, 2007, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2007 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$571,280
Residential	102,441,670
Commercial	23,647,070
Industrial	7,998,660
Public Utility Property	
Real	31,090
Personal	1,692,710
Tangible Personal Property	7,085,580
Total Assessed Value	\$143,468,060

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,466,462	\$0	\$0	\$3,466,462
Construction in Progress	0	318,427	0	318,427
Total Nondepreciable Capital Assets	3,466,462	318,427	0	3,784,889
Depreciable Capital Assets				
Buildings	854,500	80,978	0	935,478
Improvements Other Than Buildings	38,300	0	0	38,300
Streets	18,554,049	66,167	0	18,620,216
Bridges	1,236,330	0	0	1,236,330
Equipment	455,876	0	0	455,876
Vehicles	1,987,529	62,295	(21,158)	2,028,666
Total Depreciable Capital Assets	23,126,584	209,440	(21,158)	23,314,866
Less Accumulated Depreciation for				
Buildings	(317,277)	(16,940)	0	(334,217)
Improvements Other Than Buildings	(24,512)	(1,532)	0	(26,044)
Streets	(9,904,736)	(746,711)	0	(10,651,447)
Bridges	(450,089)	(24,727)	0	(474,816)
Equipment	(236,531)	(29,793)	0	(266,324)
Vehicles	(840,283)	(104,946)	21,158	(924,071)
Total Accumulated Depreciation	(11,773,428)	(924,649)	21,158	(12,676,919)
Total Depreciable Capital Assets, Net	11,353,156	(715,209)	0	10,637,947
Governmental Activities Capital Assets, Net	\$14,819,618	(\$396,782)	\$0	\$14,422,836

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$2,169,744	\$0	\$0	\$2,169,744
Construction in Progress	105,162	831,286	0	936,448
Total Nondepreciable Capital Assets	2,274,906	831,286	0	3,106,192
Depreciable Capital Assets				
Buildings	12,830,059	17,800	0	12,847,859
Improvements Other Than Buildings Water, Sewer, Electric, and Storm Water Lines	6,478,200	0	0	6,478,200
Equipment	8,336,227	0	0	8,336,227
Vehicles	2,223,763	10,788	0	2,234,551
	1,233,210	0	(88,877)	1,144,333
Total Depreciable Capital Assets	31,101,459	28,588	(88,877)	31,041,170
Less Accumulated Depreciation for				
Buildings	(6,562,965)	(371,943)	0	(6,934,908)
Improvements Other Than Buildings Water, Sewer, Electric, and Storm Water Lines	(1,605,988)	(113,481)	0	(1,719,469)
Equipment	(2,560,625)	(158,628)	0	(2,719,253)
Vehicles	(1,144,800)	(74,835)	0	(1,219,635)
	(811,947)	(65,066)	88,877	(788,136)
Total Accumulated Depreciation	(12,686,325)	(783,953)	88,877	(13,381,401)
Total Depreciable Capital Assets, Net	18,415,134	(755,365)	0	17,659,769
Business-Type Activities Capital Assets, Net	\$20,690,040	\$75,921	\$0	\$20,765,961

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$61,482
Security of Persons and Property - Fire	17,271
Public Health	2,331
Leisure Time Activities	32,240
Transportation	808,713
General Government	2,612
Total Depreciation Expense - Governmental Activities	\$924,649

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2007, the General Fund had an interfund receivable, in the amount of \$1,639,714; \$230 from other governmental funds for services provided, \$1,186,815 from other governmental funds and \$31,883 from the Self Insurance internal service fund to alleviate deficit cash balances, and \$109,565 from the Water enterprise fund, \$108,351 from the Sewer enterprise fund, \$182,926 from the Electric enterprise fund, and \$19,944 from the Storm Water enterprise fund for services provided to those funds.

At December 31, 2007, other governmental funds had an interfund receivable, in the amount of \$71,806 from other governmental funds to alleviate deficit cash balances.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2007, the City contracted with Houston Casualty Insurance Company and Travelers Property Casualty Company of America for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building and contents)	\$13,402,922	\$0
Earthquake	500,000	25,000
General Liability		
Per Occurrence	1,000,000	0
Aggregate	3,000,000	0
Employee Benefits Liability		
Each Employee Limit	1,000,000	1,000
Aggregate	3,000,000	1,000
Stop Gap Liability	1,000,000	0
Public Officials Liability	1,000,000	1,000
Law Enforcement Liability	1,000,000	5,000
Automobile Liability	1,000,000	1,000
Commercial Umbrella	5,000,000	10,000
Crime Coverage	250,000	500
Boiler and Machinery	13,401,522	0

There has been no significant reduction in insurance coverage from 2006, and no insurance settlement has exceeded insurance coverage during the last three years.

The City offers medical, vision, and dental insurance to all employees through a self-insured program. All funds of the City participate in the program and make payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The City purchased stop loss insurance for claims in excess of \$60,000 per individual per year and \$1,000,000 total aggregate lifetime. Settled claims have not exceeded this commercial coverage in the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 12 - RISK MANAGEMENT (continued)

The changes in the claims liability for 2007 and 2006 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2007	\$198,437	\$1,010,467	\$1,136,873	\$72,031
2006	128,195	1,138,703	1,068,461	198,437

For 2007, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2007:

Vendor	Contract Amount	Amount Paid as of 12/31/07	Outstanding Balance
Page Excavating, Inc.	\$225,357	\$180,286	\$45,071
Kirk Bros. Co., Inc.	150,000	59,993	90,007
Spring Electrical Construction Co.	38,910	895	38,015
Cedar Bay Construction, Inc.	719,000	208,833	510,167
Utility Truck Equipment	160,030	0	160,030

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent, and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent of covered payroll. For the period January 1 through June 30, 2007, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the postemployment health care plan; for the period July 1 through December 31, 2007, this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 was \$209,162, \$219,761, and \$254,167, respectively; 81 percent has been contributed for 2007 and 100 percent for 2006 and 2005. There were no contributions to the member-directed plan for 2007 made by the City or made by plan members.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF 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. OPF issues a stand-alone financial report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

B. Ohio Police and Fire Pension Fund (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment health care plan. The City's required contribution for pension obligations for police and firefighters for the year ended December 31, 2007, was \$78,980 and \$125,914, for the year ended December 31, 2006, was \$68,812 and \$115,147, and for the year ended December 31, 2005, was \$81,655 and \$139,494. For 2007, 82 percent has been contributed for police and 83 percent has been contributed for firefighters. The full amount has been contributed for 2006 and 2005.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

To qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The amount of the employer contributions which was allocated to fund postemployment health care was 5 percent of covered payroll from January 1 through June 30, 2007, and 6 percent from July 1 to December 31, 2007.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

A. Ohio Public Employees Retirement System (continued)

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2007, 2006, and 2005 was \$137,771, \$107,492, and \$106,458, respectively; 79 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides healthcare benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium reimbursement, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit, or is a spouse or eligible dependent child of such person.

The Ohio Revised Code permits, but does not require, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a stand-alone financial report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - OPF's postemployment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OPF. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of section 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters for the year ended December 31, 2007, was \$41,813 and \$49,271, for the year ended December 31, 2006, was \$45,386 and \$54,916, and for the year ended December 31, 2005, was \$53,858 and \$66,528. For 2007, 82 percent has been contributed for police and 83 percent has been contributed for firefighters. The full amount has been contributed for 2006 and 2005.

NOTE 16 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws.

City employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts. All employees, except those in the firefighters union, with three or more years of full-time service with the City, who elect to retire, are entitled to receive two-thirds of the value of their accumulated unused sick leave. Members of the firefighters union with five or more years of full-time service with the City, who elect to retire, are entitled to receive between 25 percent and 66 percent of the value of their accumulated unused sick leave, dependent on the amount of accumulated hours.

NOTE 17 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2007, were as follows:

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
<u>Governmental Activities</u>					
<u>Revenue Anticipation Notes</u>					
General Fund					
2005 Local Government Fund	5.875%	\$735,000	\$0	\$87,000	\$648,000
<u>General Obligation Bond Anticipation Notes</u>					
Special Revenue Funds					
2004 Airport	4.55%	93,750	0	93,750	0
2004 Recreation	4.55	222,500	0	222,500	0
2004 Fire Truck	4.55	20,000	0	20,000	0
2004 Street Improvement	4.55	303,332	0	303,332	0
Total General Obligation Bond Anticipation Notes		639,582	0	639,582	0
Total Governmental Activities		\$1,374,582	\$0	\$726,582	\$648,000

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 17 - NOTES PAYABLE (continued)

	<u>Interest Rate</u>	<u>Balance December 31, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2007</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Funds					
2004 Cheshire Improvement	4.55%	\$1,000,000	\$0	\$1,000,000	\$0
2007 Storm System Improvement	4.50%	0	575,000	0	575,000
Total Business-Type Activities	4.55%	<u>\$1,000,000</u>	<u>\$575,000</u>	<u>\$1,000,000</u>	<u>\$575,000</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds. All of the City's bond anticipation notes are backed by the full faith and credit of the City of Galion.

The revenue anticipation notes, in the original amount of \$818,000, were issued on July 28, 2005, in accordance with Ohio Revised Code Section 118.17 (fiscal emergency provision) because the City did not have sufficient cash to cover fund deficits. The final payment on the notes will be made on June 1, 2013.

The bond anticipation notes in the special revenue funds, in the original amount of \$758,750, were issued on June 3, 2004, to pay for existing hangars and other buildings at the City's airport, to improve parks and recreation, to renovate and rehabilitate an aerial platform fire engine, and to improve portions of certain City streets. The notes were paid in full in February 2007.

The bond anticipation notes in the enterprise funds, in the amount of \$1,000,000, were issued on June 3, 2004, to pay for various water and sewer improvements in the Cheshire Subdivision. The notes were paid in full in February 2007, and were paid from the Water and Sewer enterprise funds in equal amounts.

The bond anticipation notes in the enterprise funds, in the amount of \$575,000, were issued on December 20, 2007, to pay the costs of improving the storm water system. The notes mature on December 18, 2008. As of December 31, 2007, none of these proceeds had been spent.

The following is a summary of the City's principal and interest requirements to retire notes payable from governmental activities.

<u>Year</u>	<u>Revenue Anticipation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$93,000	38,070
2009	98,000	32,606
2010	104,000	26,849
2011	111,000	20,739
2012	117,000	14,217
2013	125,000	7,344
	<u>\$648,000</u>	<u>\$139,825</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2007, was as follows:

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1990 Library						
(Original Amount \$800,000)	7.25- 7.75%	\$270,000	\$0	\$60,000	\$210,000	\$65,000
2004 Various Purpose						
(Original Amount \$3,500,000)	5.00	2,800,000	0	350,000	2,450,000	350,000
2006 Street Equipment Acquisition						
(Original Amount \$169,980)	4.25	169,980	0	33,990	135,990	33,990
2007 Vehicle Acquisition						
(Original Amount \$62,295)	5.97	0	62,295	15,539	46,756	14,686
Total General Obligation Bonds		<u>3,239,980</u>	<u>62,295</u>	<u>459,529</u>	<u>2,842,746</u>	<u>463,676</u>
Other Long-Term Obligations						
Compensated Absences Payable		494,723	114,040	17,128	591,635	137,256
Police Pension Liability		27,595	0	514	27,081	535
Fire Pension Liability		104,596	0	1,946	102,650	2,029
Total Other Long-Term Obligations		<u>626,914</u>	<u>114,040</u>	<u>19,588</u>	<u>721,366</u>	<u>139,820</u>
Total Governmental Activities		<u>\$3,866,894</u>	<u>\$176,335</u>	<u>\$479,117</u>	<u>\$3,564,112</u>	<u>\$603,496</u>
<u>Business-Type Activities</u>						
General Obligation Bonds						
2007 Electric Improvement						
(Original Amount \$8,952,000)	5.25%	\$0	\$8,952,000	\$0	\$8,952,000	\$301,000
Other Long-Term Obligations						
OPWC Loans						
Railroad Street Waterline						
(Original Amount \$71,104)	0.00	53,328	0	3,555	49,773	3,555
West End Waterline						
(Original Amount \$140,000)	0.00	122,500	0	7,000	115,500	7,000
Cherry Street Sewer						
(Original Amount \$541,829)	0.00	188,350	0	26,907	161,443	26,907
Total OPWC Loans		<u>364,178</u>	<u>0</u>	<u>37,462</u>	<u>326,716</u>	<u>37,462</u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Due Within One Year
OWDA Loans						
#2735 Raw Water Line (Original Amount \$480,881)	2.00%	\$316,490	\$0	\$18,301	\$298,189	\$18,667
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	3,474,432	0	105,640	3,368,792	107,763
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	916,592	0	35,677	880,915	37,111
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,569,592	105,768	31,893	1,643,467	0
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,210,216	0	22,776	1,187,440	23,694
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	2,179,038	0	41,011	2,138,027	42,659
#4732 WWTP Bio-Solids (Original Amount \$81,117)	3.20	0	81,117	0	81,117	0
Total OWDA Loans		9,666,360	186,885	255,298	9,597,947	229,894
Electric Improvement Loan (Original Amount \$5,225,000)	7.00	4,927,000	0	4,927,000	0	0
Compensated Absences Payable		388,470	35,384	2,582	421,272	71,230
Capital Leases Payable		146,381	0	26,518	119,863	27,830
AMP Ohio Payable - JV 2		2,179,423	0	110,586	2,068,837	116,061
Total Business-Type Activities		\$17,671,812	\$9,174,269	\$5,359,446	\$21,486,635	\$783,477

1990 Library General Obligation Bonds

On September 1, 1990, the City issued \$800,000 in voted general obligation bonds for improvements to the Galion Public Library. The bonds are being retired from the Library debt service fund with a voted property tax levy. The bonds will fully mature on December 1, 2010.

2004 Various Purpose General Obligation Bonds

On December 15, 2004, the City issued \$3,500,000 in unvoted general obligation bonds to pay for improvements to the airport, to the fire and safety system, for parks and recreation improvements, and for street improvements. The bonds are partially secured by pledged revenues from the Egbert M. Freese Foundation to be received annually over the life of the bond issue. Any principal and interest payments due that exceed the annual amounts received from the Foundation will be paid with transfers from the General Fund. The bonds are being retired from the Freese debt service fund. The bonds will mature on December 1, 2014.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

2006 Street Equipment Acquisition General Obligation Bonds

On May 23, 2006, the City issued \$169,980 in unvoted general obligation bonds to pay the costs of acquiring two dump trucks equipped with plows. The bonds are being retired from the Street Maintenance special revenue fund. The bonds will mature on December 1, 2011.

2007 Vehicle Acquisition General Obligation Bonds

On May 24, 2007, the City issued \$62,295 in unvoted general obligation bonds to pay the costs of acquiring three police cruisers. The bonds are being retired from the General Fund. The bonds will mature on December 1, 2010.

Electric System Improvement General Obligation Bonds

On December 21, 2007, the City issued \$8,952,000 in unvoted general obligation bonds to retire the Electric Improvement Loan, in the amount of \$4,927,000, and to upgrade an electric substation and the related distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on January 15, 2023. As of December 31, 2007, the City had unspent proceeds, in the amount of \$4,025,000.

OPWC Loans

OPWC loans are general obligations of the City and consist of monies owed to the Ohio Public Works Commission for street improvements and for replacement of water lines and sewer lines. The loans are interest free. The loans will be repaid from the Street Maintenance special revenue fund and the Water and Sewer enterprise funds to the extent resources are available.

OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for improvements to water and sewer lines and upgrades to the City's water and sewer treatment plants. OWDA loans are payable solely from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the loans is \$11,388,782. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$384,085 and \$184,031, respectively. Total net revenues for the Water and Sewer enterprise funds were \$630,433 and \$577,095, respectively.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, the Street Maintenance, Recreation, and Airport special revenue funds, and the Water, Sewer, Electric, and Storm Water enterprise funds.

Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the Police Pension and Fire Pension special revenue funds.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related assets.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

AMP Ohio Payable - JV2

The City is a participant, with thirty-six other subdivisions within the State of Ohio, in the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis. During 2001, AMP-Ohio issued bonds, in the amount of \$50,260,000, to acquire capital assets for JV2. Under a financing agreement between the participants of JV2 and AMP-Ohio, the participants have agreed to pay the debt service requirements of the bonds.

These bonds will be paid solely from the gross revenues of the City's Electric enterprise fund after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the bonds is \$2,849,124. Principal and interest paid for the current year and total net revenues were \$203,955 and \$3,048,857, respectively.

The City's legal debt margin was \$12,221,400 at December 31, 2007.

The sewer improvements funded by OWDA loans have not been completed. An amortization schedule for the repayment of the loans will not be available until the projects are completed and, therefore, are not included in the following schedule.

The following is a summary of the City's future annual debt service requirements for governmental activities:

	Governmental Activities			
	General Obligation Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest
2008	\$463,676	\$147,690	\$2,565	\$5,486
2009	469,570	122,488	2,674	5,377
2010	475,500	97,188	2,789	5,262
2011	384,000	71,445	2,910	5,141
2012	350,000	52,644	3,034	5,017
2013-2017	700,000	52,500	17,246	23,014
2018-2022	0	0	21,277	18,906
2023-2027	0	0	26,258	12,946
2028-2032	0	0	32,402	8,108
2033-2035	0	0	18,576	1,988
	\$2,842,746	\$543,955	\$129,731	\$91,245

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

The City's future annual debt service requirements payable from the enterprise funds are as follows:

Year	Business-Type Activities			
	General Obligation Bonds		OPWC Loans	
	Principal	Interest	Principal	
2008	\$301,000	\$379,906	\$37,462	
2009	420,000	446,000	37,462	
2010	443,000	423,517	37,462	
2011	466,000	399,801	37,462	
2012	491,000	374,850	37,462	
2013-2017	2,880,000	1,450,471	79,686	
2018-2022	3,737,000	592,449	49,220	
2023-2024	214,000	2,809	10,500	
	\$8,952,000	\$4,069,803	\$326,716	

Year	OWDA Loans		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2008	\$229,894	\$239,199	\$116,061	\$103,154
2009	236,591	232,502	121,809	97,351
2010	243,509	225,584	127,831	91,261
2011	250,650	218,443	134,674	84,550
2012	258,026	211,067	141,791	77,479
2013-2017	1,409,563	935,892	826,932	268,645
2018-2022	1,609,609	711,224	599,739	57,847
2023-2027	1,542,086	464,806	0	0
2028-2032	1,538,562	237,416	0	0
2033-2035	554,873	39,286	0	0
	\$7,873,363	\$3,515,419	\$2,068,837	\$780,287

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments in 2007 were \$26,518 in the enterprise funds.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

	Business-Type Activities
Depreciable Capital Assets	
Equipment	\$146,381
Less Accumulated Depreciation for	
Equipment	(9,759)
Total	\$136,622

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, 2007.

Year	Business-Type Activities	
	Principal	Interest
2008	\$27,830	\$5,933
2009	29,208	4,556
2010	30,654	3,110
2011	32,171	1,592
	\$119,863	\$15,191

NOTE 20 - INTERFUND TRANSFERS

During 2007, the General Fund made transfers to other governmental funds, in the amount of \$1,125,553; \$1,115,553 to subsidize various programs in other funds and \$10,000 to move receipts as debt payments came due.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$532,245 and \$549,478, to move receipts as debt payments became due.

The Water enterprise fund made transfers to other governmental funds and the Storm Water enterprise fund, in the amount of \$27,170 and \$35,360, respectively, to move receipts as debt payments became due.

The Sewer enterprise fund made transfers to other governmental funds and the Storm Water enterprise fund, in the amount of \$45,060 and \$35,360, respectively, to move receipts as debt payments became due.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 21 - EGBERT M. FREESE FOUNDATION

The Egbert M. Freese Foundation (Foundation), a not-for-profit corporation, is a component unit of the City. The Foundation is governed by a five member Board of Trustees appointed by City Council. The Foundation was established by the City in 1999 upon receipt of monies from the estate of Egbert M. Freese. The terms of the Foundation agreement provide for the Board of Trustees to have the power and authority to appropriate for distribution funds held by the Foundation as principal. In addition, the annual net income from the Foundation's assets is to be distributed annually such that one-eighth of the annual net income is used for college scholarships for worthy high school graduates in the City and seven-eighths of the income is used generally for the upkeep and maintenance of City facilities that benefit the citizens of Galion (primarily for the upkeep and improvement of the parks in the City).

The Foundation does not prepare financial statements. The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2007, the Foundation's investments consisted of the following:

	<u>Fair Value</u>
Equities	\$4,637,886
Fixed Income	2,377,307
Cash Equivalents	2,841,601
Other Assets	200
	<u>\$9,856,994</u>

NOTE 22 - JOINT VENTURES

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

The City is a participant, with twenty other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one 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 eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$10,794 to the joint venture in 2007 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the Joint Venture participants are billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$39,052 at December 31, 2007. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 22 - JOINT VENTURES (continued)

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

The City is a participant, with thirty-five other subdivisions within the State of Ohio, in a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture (JV2). The City is both a financing participant and an owner participant with percentages of liability and ownership of 5.47 percent and 4.29 percent, respectively. Owner participants own undivided interests, as tenants in common, in JV2 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.

In accordance with the JV2 Agreement (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 JV2, including such portions of 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 Agreement.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of operation and maintenance expenses of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes, or other indebtedness payable from any revenues of the system. Under the terms of the Agreement, each financing participant is to fix, charge, and collect rates, fees, and charges at least sufficient enough to maintain a debt coverage ratio equal to 110 percent of the sum of JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2007, the City met its debt coverage obligation.

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). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. The City's net obligation for these bonds at December 31, 2007, was \$2,068,837 (including amounts held in the bond fund, previous billings to members, interest payable, and debt service paid and collected). The City's investment and its share of the operating results of JV2 are reported in the City's Electric enterprise fund. The City's investment in JV2 was \$1,688,127 at December 31, 2007. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

NOTE 23 - JOINTLY GOVERNED ORGANIZATION

The City participates in the Galion/Polk Township Community Improvement Corporation (CIC), a 501(c)(3) not-for-profit corporation established under Ohio Revised Code Section 1724.10. The purpose of the CIC is to advance, encourage, and promote the industrial, economic, commercial, and civic development of the City of Galion and Polk Township.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 23 - JOINTLY GOVERNED ORGANIZATION (continued)

The CIC board consists of twenty-five members, two-fifths of whom are required by the Ohio Revised Code to be from the participating governments. Financial information can be obtained from the Galion/Polk Township Community Improvement Corporation, 106 Harding Way East, Galion, Ohio 44833.

NOTE 24 - INSURANCE POOL

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan was established through the North Central Ohio Municipal Finance Officers' Association (NCOMFOA) as an insurance purchasing pool. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

NOTE 25 - RELATED ORGANIZATION

The Galion Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by City Council. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the City for operational subsidies. Although the City serves as the taxing authority and can issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. The Library is not considered part of the City and its operations are not included within the accompanying financial statements. Financial information can be obtained from the Galion Public Library, 123 North Market Street, Galion, Ohio 44833.

NOTE 26 - FISCAL EMERGENCY

On August 9, 2004, the Auditor of State declared the City of Galion to be in a state of fiscal emergency in accordance with Section 118.03 of the Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the city manager, the president of city council, and three individuals appointed by the Governor who are residents of the City and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan in March 2005. This plan was subsequently updated in December 2005, April 2007, and April 2008.

The more significant steps taken by the City to alleviate the fiscal emergency conditions include staff reductions, spending cuts, an additional .5 percent income tax for police and fire operations, increased utility rates for electric, water, and sewer, and local government fund borrowing (a provision of Section 118.07 of the Ohio Revised Code). As of December 31, 2007, the City was still in fiscal emergency and has not determined when this situation will be resolved.

For 2006, 2007, and 2008 the City was able to prepare a budget in which current year expends expenses were within current year revenues; however, a number of funds continue to carry deficit fund balances/net assets due to carryover deficits.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Continued)**

NOTE 27 - CONTINGENT LIABILITIES

A. Litigation

There are currently no matters in litigation with the City as defendant.

B. Federal and State Grants

For the period January 1, 2007, to December 31, 2007, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**CITY OF GALION
CRAWFORD**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDING DECEMBER 31, 2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	2007 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 (Downtown Grant)	A-T-04-124-1	14.228	\$26,957
Community Development Block Grants/State's Program (Formula Grant)	A-F-06-124-1	14.228	56,000
Community Development Block Grants/State's Program (Revolving Loan)	A-E-03-124-1 A-E-05-124-1	14.228 14.228	9,289 159,709
Community Development Block Grants/State's Program (CHIP Grant)	A-C-05-124-1	14.228	82,580
HOME Investment Partnerships Program (CHIP Grant)	A-C-05-124-2	14.239	275,669
Total CHIP Grant			<u>358,249</u>
Total U.S. Department of Housing and Urban Development			<u>610,204</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed through Ohio Attorney General</i>			
Crime Victim Assistance	2007VAGENE469	16.575	11,642
Crime Victim Assistance	2008VAGENE469	16.575	3,882
Total Crime Victim Assistance			<u>15,524</u>
<i>Passed through Ohio Office of Justice Programs</i>			
Bulletproof Vest Partnership Program	2006BUBX03019940	16.607	288
			<u>288</u>
Total U.S. Department of Justice			<u>15,812</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
<i>Passed through Ohio Environmental Protection Agency</i>			
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	(STAG) XP-9657001-0	66.610	158,332
Total U.S. Environmental Protection Agency			<u>158,332</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Airport Improvement Program	N/A	20.106	112,978
Total U.S. Department of Transportation			<u>112,978</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$897,326</u></u>

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money, administrative fees, and interest subsidies (if applicable) are recorded as disbursements on the accompanying Federal Awards Expenditures Schedule (the Schedule). Loans repaid, including interest, are used to make additional loans. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans; and therefore, are reported as federal expenditures in the year of disbursement. Prior year outstanding loan balances are reported in the schedule below.

These loans are collateralized by mortgages on the property.

Activity in the CDBG revolving loan fund during 2007 is as follows:

Beginning loans receivable balance as of January 1, 2007	\$694,760
Loans made	150,000
Loan principal repaid on loans issued prior to 2007	(55,267)
Loan principal repaid on 2007 loans issued	<u>(5,560)</u>
Ending loans receivable balance as of December 31, 2007	783,933
Cash balance on hand in the revolving loan fund as of December 31, 2007	167,878
Interest subsidies and administrative costs expended during 2007	18,998
Total value of RLF portion of the CDBG 14.228 program	970,809
Other grants administered through the 14.228 program	<u>166,537</u>
Total CDBG 14.228 program	<u>\$1,137,346</u>

NOTE C - 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.



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 31, 2008, wherein we noted the City 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 was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code §118.05(G), the Auditor of State served as the City's financial supervisor. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. Furthermore, we noted the financial statements of the Freese Foundation Component Unit, the City's discretely presented component unit, have not been audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated October 31, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 31, 2008.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 31, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 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 apply to each of its major federal programs for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 of Galion, Crawford County, Ohio, complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2007-004.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as 2007-004 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements. We did not consider the deficiency described in the accompanying schedule of findings to be a material weakness.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 31, 2008

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
(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):	14.228 – Community Development Block Grants / State's Program 14.239 – Home Investment Partnerships Program
(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, 2007
(Continued)**

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

FINDING NUMBER 2007-001

**Significant Deficiency / Material Non-Compliance / Material Weakness
Reporting Entity**

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). The Governmental Accounting Standards Board (GASB) establishes those standards of accounting and financial reporting for state and local governmental entities. Standards set by GASB guide the preparation of external financial reports for those entities.

GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, establish standards for defining and reporting on the financial reporting entity. As defined by these statements, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government are financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Egbert M. Freese Foundation (the Foundation) is a legally separate not-for-profit organization. Pursuant to the Foundation's articles of incorporation, the Foundation was 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. 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.

Despite the Foundation being an entity legally separate from the City, the Foundation is a component unit of the City for financial reporting purposes 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. Accordingly, so that the City complies with the financial accounting and reporting standards of GASB, the Foundation's financial statement must be included on the City's annual financial statements. As a result, it is necessary for the Foundation to provide annual audited financial statements to the City for inclusion in the City's financial statements.

Currently, the Foundation does not have an annual audit performed. Reporting unaudited component unit financial information in the City's annual financial statements will result in a modified audit opinion on the City's financial statements and, as a result, may affect the evaluation of the City by external users of the financial statements. Such an opinion also precludes the City from achieving single audit low-risk status pursuant to OMB Circular A133, *Audits of States, Local Governments, and Non-Profit Organizations* (the Circular). The Circular requires auditing of the City's compliance with grant requirements if the City expends \$500,000 of federal financial assistance annually. Not-low-risk status would require a higher percentage of federal grant awards to be audited for compliance, and could possibly result in additional audit cost to the City.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

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

FINDING NUMBER 2007-001 (Continued)

**Significant Deficiency / Material Non-Compliance / Material Weakness
Reporting Entity**

We recommend the City take appropriate measures to ensure the financial statements of its component unit are audited annually. The City should also ensure that such audited statements are obtained timely so that the City is able to comply with the annual financial reporting deadline established by Ohio Rev. Code Section 117.38.

FINDING NUMBER 2007-002

**Significant Deficiency / Material Non-Compliance / Material Weakness
Sewer Billings**

City Ordinance 2005-61 states, in part, the sewer rates for the zero cubic foot rate block is to be a minimum service charge, with said rate to be applied only if water usage is below one hundred cubic feet, and not applied if water usage is over one hundred cubic feet during a billing period.

During 2007, this zero cubic foot rate was \$3.91, and all sewer customers were charged this rate each month regardless of usage. This resulted in apparent over-billings inconsistent with City Ordinance 2005-61 of \$3.91 per sewer customer per month, totaling approximately \$221,000.

We recommend City Council, the City Manager, and the City Finance Director ensure all billing practices are consistent with approved City Ordinances governing utility rates. We further recommend that once billing practices and utility rate City Ordinances are consistent the City determine amounts over-billed to customers, if any, and refund such over-billings as necessary.

In August 2008, City Council passed City Ordinance 2008-44 clarifying that the minimum service charge is the sewer rate for zero cubic feet up to the first 99 cubic feet of water used and is cumulative, meaning it is added to each successive block rate with additional water usage charges.

FINDING NUMBER 2007-003

**Significant Deficiency
Self Insurance Activity**

The City operates a health care self insurance program. The Finance Department used established rates to allocate premiums to the funds from which employees were paid; however, these rates were not sufficient to cover all expenditures made out of the Self Insurance Fund, including payment of claims, administrative fees and stop loss fees. Furthermore, these rates were not specifically approved by City Council.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

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

FINDING NUMBER 2007-003 (Continued)

**Significant Deficiency
Self Insurance Activity**

We recommend City Council and the City Manager closely monitor the health care self insurance program to ensure objectives are being achieved and the program is cost beneficial to the City. City Council may consider forming an insurance committee and include representation from an individual specialized in the field of health care self insurance, possibly a representative from the City's health care third party administrator. After careful analysis of the expenses of the program by Council and/or an insurance committee, the Council should establish premium rates to be charged back to the City funds from which the employees are paid. Ongoing monitoring of this program should be conducted to determine whether premiums are covering the cost of the program and whether the program continues to be cost beneficial to the City.

Effective January 1, 2008, the City continues to be self insured for vision and dental but is no longer self insured for medical and prescription coverage.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2007-004
CFDA Title and Number	Community Development Block Grants State's Program, #14.228; HOME Investment Partnerships Program, #14.239; Crime Victim Assistance, #16.575; Bulletproof Vest Partnership Program, #16.607; Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator, #66.610; Airport Improvement Program, #20.106
Federal Award Number / Year	A-T-04-124-1; A-F-06-124-1; A-E-03-124-1; A-E-05-124-1; A-C-05-124-1; A-C-05-124-2; 2007VAGENE469; 2008VAGENE469; 2006BUBX03019940; (STAG) XP-9657001-0
Federal Agency	U.S. Department of Housing and Urban Development, U.S. Department of Justice, U.S. Environmental Protection Agency, U.S. Department of Transportation
Pass-Through Agency	Ohio Department of Development, Ohio Attorney General, Ohio Office of Justice Programs, Ohio Environmental Protection Agency

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2007-004 (Continued)
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**Significant Deficiency / Material Non-Compliance
Federal Awards Expenditures Schedule**

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, (the Circular), sets forth standards for the audit of non-Federal entities expending Federal awards. Section .300(a) of the Circular states the auditee shall identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Section .310(b) states, in part, the auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For Research and Development, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Section .320(a) of the Circular also requires the audit to be completed and the reporting package filed within the earlier of 30 days after the receipt of the auditor's report(s), or 9 months after the end of the audit period, (which, for the City is September 30) unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	2007-004 (Continued)
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**Significant Deficiency / Material Non-Compliance
Federal Awards Expenditures Schedule**

The City does not have a procedure in place to readily identify its federal awards expenditures. This resulted in modifications to the original schedule of federal awards expenditures prepared by the City for 2007. These modifications to the federal expenditures originally reported included the following:

Grant	Expenditures originally reported	Expenditures after adjustments
Bulletproof Vest Partnership Program - #16.607	\$3,738	\$288
Surveys, Studies, Investigations and Special Purpose Grants - #60.610	\$38,615	\$158,332
Airport Improvement Grant - #20.106	\$112,634	\$112,978
HOME Investment Partnerships Program - #14.239	\$0	\$275,669
Community Development Block Grant State's Program - #14.228	\$612,501	\$334,535

The City has made these adjustments to the federal awards expenditures schedule.

Failure to identify federal awards and accurately prepare a federal awards expenditures schedule may result in noncompliance with the Circular and may compromise the City's ability to obtain federal awards in the future.

We recommend the City implement procedures to track and readily identify the receipt and disbursement of all federal awards. The City should use this information to ensure accurate preparation of the federal awards expenditures schedule at year end.

Officials' Response

We did not receive a response from Officials to the findings reported above.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	Annual Report Filing and Publishing	No	Partially corrected – in 2007, the annual report was properly filed; however, the annual notice was not published. Comment is being repeated in the management letter.
2006-002	Certification of Expenditures	Yes	
2006-003	Reporting Entity	No	Not corrected – comment is being repeated as finding 2007-001.
2006-004	Cellular Phone Policy	No	Not corrected – comment is being repeated in the management letter.
2006-005	Negative Leave Balances	Yes	
2006-006	Self Insurance Administrative and Stop Loss Fees	Yes	
2006-007	Review of Detailed Monthly Financial Reports	Yes	
2006-008	Review of Bank Reconciliations and Original Bank Statements	Yes	
2006-009	Self Insurance Fund Activity	No	Not corrected – comment is being repeated as finding 2007-003.
2006-010	Federal Awards Expenditures Schedule	No	Not corrected – comment is being repeated as finding 2007-004.



Mary Taylor, CPA
Auditor of State

**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
JANUARY 20, 2009**