



Certified Public Accountants, A.C.

**CITY OF GALION  
CRAWFORD COUNTY  
Regular Audit  
For the Year Ended December 31, 2017**

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# Dave Yost • Auditor of State

City Council  
City of Galion  
301 Harding Way East  
Galion, Ohio 44833

We have reviewed the *Independent Auditor's Report* of the City of Galion, Crawford County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

August 13, 2018

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**City of Galion  
Crawford County**

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Crawford County**

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## INDEPENDENT AUDITOR'S REPORT

June 29, 2018

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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***Auditor's Responsibility (Continued)***

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio, as of December 31, 2017, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Police and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

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 Section 118.05(G), the Auditor of State served as the City's financial supervisor. We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

**Perry & Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
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, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2017 are as follows:

In total, the City's net position decreased over 2 percent from the prior year. Governmental activities increased less than 1 percent and business-type activities decreased 4 percent.

General revenues made up 76 percent of the total revenues for governmental activities in 2017 and, of this amount, 69 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

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 position 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 position and the statement of activities reflect how the City did financially during 2017. 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.

These statements report the City's net position and changes in net position. This change in net position 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.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
Unaudited

In the statement of net position 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.

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 dental and vision benefits.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2017 and 2016.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Assets</u>						
Current and Other Assets	\$10,715,117	\$9,733,393	\$15,625,559	\$15,773,913	\$26,340,676	\$25,507,306
Capital Assets, Net	18,204,105	18,370,099	30,204,243	30,723,067	48,408,348	49,093,166
Total Assets	<u>28,919,222</u>	<u>28,103,492</u>	<u>45,829,802</u>	<u>46,496,980</u>	<u>74,749,024</u>	<u>74,600,472</u>
<u>Deferred Outflows of Resources</u>						
Pension	<u>2,049,647</u>	<u>2,137,534</u>	<u>1,176,033</u>	<u>1,022,185</u>	<u>3,147,279</u>	<u>3,159,719</u>
<u>Liabilities</u>						
Current and Other Liabilities	447,618	521,441	4,136,113	2,455,634	4,583,731	2,977,075
Long-Term Liabilities						
Pension	8,336,496	8,052,767	2,979,757	2,445,946	11,316,253	10,498,713
Other Amounts	2,201,315	2,007,687	16,173,979	17,867,599	18,375,294	19,875,286
Total Liabilities	<u>10,985,429</u>	<u>10,581,895</u>	<u>23,289,849</u>	<u>22,769,179</u>	<u>34,275,278</u>	<u>33,351,074</u>
<u>Deferred Inflows of Resources</u>						
Pension	282,461	50,681	102,590	73,814	306,650	124,495
Other Amounts	<u>364,198</u>	<u>367,343</u>	<u>25,219</u>	<u>0</u>	<u>389,417</u>	<u>367,343</u>
Total Deferred Inflows of Resources	<u>646,659</u>	<u>418,024</u>	<u>127,809</u>	<u>73,814</u>	<u>696,067</u>	<u>491,838</u>
<u>Net Position</u>						
Net Investment in Capital Assets	16,637,078	17,090,168	14,286,363	13,942,925	30,923,441	31,033,093
Restricted	3,031,213	2,744,970	0	0	3,031,213	2,744,970
Unrestricted (Deficit)	(331,510)	(594,031)	9,301,814	10,733,247	8,970,304	10,139,216
Total Net Position	<u>\$19,336,781</u>	<u>\$19,241,107</u>	<u>\$23,588,177</u>	<u>\$24,676,172</u>	<u>\$42,924,958</u>	<u>\$43,917,279</u>

The net pension liability reported by the City at December 31, 2017, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**CITY OF GALION**  
Management's Discussion and Analysis  
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GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of the City. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Changes for deferred outflows and deferred inflows related to pension noted in the above table for both governmental and business-type activities reflect the difference between projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the City's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

**CITY OF GALION**  
Management's Discussion and Analysis  
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The overall change in net position for governmental activities was less than 1 percent; however, there were several changes from the prior year worth noting. The increase in current and other assets was due to several factors. There was an increase in cash and cash equivalents primarily due to an increase in municipal income tax revenue for 2017 as well as an increase in ambulance runs/collections. In addition, there was an increase in the receivable for municipal income taxes as the City anticipates modest increases for 2018 as well. The decrease in current and other liabilities is the result of projects that had outstanding liabilities at the end of 2016 that were completed during 2017. The increase in other long-term liabilities represents new debt for the acquisition of various vehicles.

For business-type activities, the most significant change is the increase in current and other liabilities due to bond anticipation notes issued for improvements to the City's electric distribution system, to construct a new lift station, and for other sewer improvements. This resulted in a decrease in unrestricted net position. Other changes included a decrease in net capital assets and the investment in capital assets due to annual depreciation and a decrease in other long-term liabilities resulting from scheduled debt retirement.

Table 2 reflects the change in net position for 2017 and 2016.

Table 2  
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$1,403,125	\$1,163,331	\$16,253,751	\$15,689,213	\$17,656,876	\$16,852,544
Operating Grants, Contributions, and Interest	821,851	692,854	0	0	821,851	692,854
Capital Grants and Contributions	213,086	245,334	0	0	213,086	245,334
<b>Total Program Revenues</b>	<b>2,438,062</b>	<b>2,101,519</b>	<b>16,253,751</b>	<b>15,689,213</b>	<b>18,691,813</b>	<b>17,790,732</b>
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	313,558	298,404	0	0	313,558	298,404
Property Taxes Levied for Police and Fire Pension	57,248	54,478	0	0	57,248	54,478
Municipal Income Taxes Levied for General Purposes	2,664,643	2,497,167	0	0	2,664,643	2,497,167
Municipal Income Taxes Levied for Police and Fire	2,374,907	2,223,155	0	0	2,374,907	2,223,155
Municipal Income Taxes Levied for Recreation	289,735	274,011	0	0	289,735	274,011
Other Local Taxes	427,853	424,794	0	0	427,853	424,794
Grants and Entitlements not Restricted to Specific Programs	222,078	217,082	0	0	222,078	217,082
Franchise Taxes	121,434	120,150	0	0	121,434	120,150
Interest	169,674	(43,225)	9,856	2,880	179,530	(40,345)
Other	1,054,770	542,021	217,712	153,484	1,272,482	695,505
<b>Total General Revenues</b>	<b>7,695,900</b>	<b>6,608,037</b>	<b>227,568</b>	<b>156,364</b>	<b>7,923,468</b>	<b>6,764,401</b>
<b>Total Revenues</b>	<b>10,133,962</b>	<b>8,709,556</b>	<b>16,481,319</b>	<b>15,845,577</b>	<b>26,615,281</b>	<b>24,555,133</b>

(continued)

**CITY OF GALION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**  
**Unaudited**

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<u>Program Expenses</u>						
Security of Persons and Property						
Police	\$3,257,151	\$2,304,895	\$0	\$0	\$3,257,151	\$2,304,895
Fire	1,700,073	2,163,765	0	0	1,700,073	2,163,765
Public Health	669,298	572,801	0	0	669,298	572,801
Leisure Time Activities	349,184	719,640	0	0	349,184	719,640
Community Environment	219,550	49,201	0	0	219,550	49,201
Transportation	2,044,236	2,491,707	0	0	2,044,236	2,491,707
General Government	1,772,386	1,662,649	0	0	1,772,386	1,662,649
Interest and Fiscal Charges	26,813	20,554	0	0	26,813	20,554
Water	0	0	2,070,412	2,161,841	2,070,412	2,161,841
Sewer	0	0	2,529,545	2,094,259	2,529,545	2,094,259
Electric	0	0	12,386,059	12,771,323	12,386,059	12,771,323
Storm Water	0	0	582,895	709,023	582,895	709,023
Total Expenses	<u>10,038,691</u>	<u>9,985,212</u>	<u>17,568,911</u>	<u>17,736,446</u>	<u>27,607,602</u>	<u>27,721,658</u>
Increase (Decrease) in Net Position Before Transfers	95,271	(1,275,656)	(1,087,592)	(1,890,869)	(992,321)	(3,166,525)
Transfers	403	(554,997)	(403)	554,997	0	0
Increase (Decrease) in Net Position	95,674	(1,830,653)	(1,087,592)	(1,335,872)	(992,321)	(3,166,525)
Net Position Beginning of Year	19,241,107	21,071,760	24,676,172	26,012,044	43,917,279	47,083,804
Net Position End of Year	<u>\$19,336,781</u>	<u>\$19,241,107</u>	<u>\$23,588,177</u>	<u>\$24,676,172</u>	<u>\$42,924,958</u>	<u>\$43,917,279</u>

The above table reflects the revenues and expenses for operating the City for the past two years. For governmental activities, there was a 16 percent increase in total revenues. Increases for program revenues included an increase in ambulance runs/collections reflected in charges for services and an increase in operating grants and contributions for a grant received for the depot. For general revenues, there were increases in municipal income taxes as individual and business incomes increased, and increase in interest revenue as the City's investment performance improved in 2017, and an increase in other revenue which represents reimbursements to the General Fund related to salaries costs for police and firefighters.

The change in total governmental activities expenses was less than 1 percent. Note that police and fire operations account for 49 percent of the City's total expenses and the street department operations account for another 20 percent of total expenses.

As is to be expected, 99 percent of the revenues for business-type activities are received through charges for services provided to the users of the systems. The increase in charges for services revenue was due to rate adjustments for electric (base rate and power cost adjustment).

By far, the electric distribution system is the City's largest utility as demonstrated by the costs to operate the system.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
Unaudited

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	
	2017	2016	2017	2016
Security of Persons and Property				
Police	\$3,257,151	\$2,304,895	\$3,214,449	\$2,269,569
Fire	1,700,073	2,163,765	988,469	1,647,465
Public Health	669,298	572,801	284,057	263,734
Leisure Time Activities	349,184	719,640	274,608	712,395
Community Environment	219,550	49,201	19,876	42,224
Transportation	2,044,236	2,491,707	1,334,209	1,592,109
General Government	1,772,386	1,662,649	1,458,148	1,335,643
Interest and Fiscal Charges	26,813	20,554	26,813	20,554
Total Expenses	<u>\$10,038,691</u>	<u>\$9,985,212</u>	<u>\$7,600,629</u>	<u>\$7,883,693</u>

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 and operating grants provide for 42 percent of the costs of providing fire services. Charges for services include charges for local ambulance services as well as the amount charged to Polk Township for fire/ambulance services. Charges for services and operating grants provide for 58 percent of public health costs. Charges for services and various grants and contributions provide for 35 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Police and Fire Levy special revenue fund.

The General Fund had a 17 percent decrease in fund balance in 2017. The most significant revenue increases occurred in charges for services (including the increase in ambulance runs/collections mentioned previously) and an increase in other revenue (reimbursement for police and fire salaries). The increase in expenditures is primarily due to personnel costs (staff increases and overall salary and benefit cost increases).

Fund balance decreased in the Police and Fire Levy Fund. Revenues had a modest increase due to an increase in municipal income taxes. The significant increase in expenses is primarily due to reimbursing the General Fund for salaries for police and firefighters.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
Unaudited

**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 position, the Water, Sewer, and Storm Water funds had an operating loss for 2017.

Net position decreased almost 8 percent in the Water Fund. Both revenues and expenses decreased slightly from the prior year. The decrease in net position is due to charges for services not being enough to cover operating costs. Rate changes are not being considered at this time.

Net position decreased almost 13 percent in the Sewer Fund with revenues and expenses very similar to the prior year. The decrease in net position is due to charges for services not being enough to cover operating costs. Rate changes are not being considered at this time.

There was very little change in net position in the Electric Fund. Rate adjustments to the base rate and the power cost adjustment led to a 5 percent increase in charges for services revenue. Expenses decreased slightly due to a reduction in bad debt expense.

The increase in net position in the Storm Water Fund was due to a modest increase in revenue (approximately \$39,000) and a decrease in expenses (primarily materials and supplies).

**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. The most significant change from the final budget to actual revenues was due to the reimbursement for police and firefighter salaries. For expenditures, changes from the original budget to the final budget were not significant. Savings were recognized in all programs when comparing actual expenditures to the final budget due to conservative budgeting.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2017, was \$18,204,105 and \$30,204,243, respectively (net of accumulated depreciation). The most significant additions for governmental activities were street improvements, both ongoing construction and completed construction, and new vehicles. The primary additions for business-type activities were infrastructure improvements, especially the electric distribution system upgrade. Disposals consisted primarily of vehicles for both governmental and business-type activities. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2017  
Unaudited

Debt - At December 31, 2017, the City had bond anticipation notes payable from governmental and business-type activities, in the amount of \$1,030,200 and \$2,514,400, respectively. Bond anticipation notes were issued to partially retire notes previously issued for the purchase of a fire truck, street vehicles, a screw pump at the wastewater treatment plant, and a utility truck. New notes were issued for the purchase of two ambulances, street and sewer improvements, a pump station, and the distribution system upgrade. The City also had a number of long-term obligations outstanding including \$4,951,000 in general obligation bonds, \$1,096,142 in Ohio Public Works Commission loans, and \$9,304,412 in Ohio Water Development Authority loans. Of this debt, \$15,007,190 will be paid from business-type activities.

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

CURRENT ISSUES

In 2017, the City of Galion finished the TIF project near Brandt Road which enabled the new motel project to be completed. The sixty-two room motel is part of the economic development on the State Route 598/Portland Way business corridor.

The Phase IV and V electric upgrade continued. Completion is still planned for early 2018.

The Depot Pavilion was completed in early 2017. The Pavilion has seen steady usage by a wide variety of organizations.

The shelter at Amann Reservoir was completed as planned in 2018.

Various Freese Projects were done in 2017, most notably new restrooms were built at South Park. Further projects are underway for 2018.

Street paving included Southern Avenue, West Parson Street between South Market Street and Boston Street, Fairview Road from Hetrick Drive north to the city limits, Switzer Drive, Riblet Street from Church Street to Primrose Street, North Washington Street from Church Street to Payne Street, Summit Street from Union Street to Park Street, and Liberty Street from Harding Way to Payne Street.

On April 25, 2018, the Financial Planning and Supervision Commission which has been in place since the City was placed in fiscal emergency in August 2004, passed a resolution requesting the Auditor of State to determine whether the City has corrected all of the fiscal emergency conditions, whether the City has met the objectives of the financial plan, and whether the Commission and its functions should be terminated. The Auditor of State's Office is in the process of making this evaluation.

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 Brian Treisch, Auditor, City of Galion, 115 Harding Way East, Galion, Ohio 44833.

City of Galion  
Statement of Net Position  
December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total*	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$6,512,480	\$12,181,357	\$18,693,837	\$0
Investments in Segregated Accounts	0	0	0	10,891,449
Accounts Receivable	144,959	2,898,970	3,043,929	0
Accrued Interest Receivable	67,865	0	67,865	0
Due from Other Governments	529,295	0	529,295	0
Municipal Income Taxes Receivable	1,646,999	0	1,646,999	0
Other Local Taxes Receivable	15,814	0	15,814	0
Excise Taxes Receivable	0	35,784	35,784	0
Internal Balances	234,189	(234,189)	0	0
Prepaid Items	33,197	19,567	52,764	0
Materials and Supplies Inventory	64,470	21,324	85,794	0
Payment in Lieu of Taxes Receivable	9,807	25,219	35,026	0
Property Taxes Receivable	422,411	0	422,411	0
Notes Receivable	1,033,631	0	1,033,631	0
Special Assessments Receivable	0	226,152	226,152	0
Nondepreciable Capital Assets	3,503,145	7,475,154	10,978,299	0
Depreciable Capital Assets, Net	14,700,960	22,729,089	37,430,049	0
Investment in Joint Venture	0	451,375	451,375	0
<b>Total Assets</b>	<b>28,919,222</b>	<b>45,829,802</b>	<b>74,749,024</b>	<b>10,891,449</b>
<u>Deferred Outflows of Resources</u>				
Pension	2,049,647	1,176,033	3,147,279	0
<u>Liabilities</u>				
Accrued Wages Payable	76,308	30,559	106,867	0
Accounts Payable	25,547	984,738	1,010,285	0
Contracts Payable	7,561	19,639	27,200	0
Due to Other Governments	178,844	42,888	221,732	0
Retainage Payable	0	188,188	188,188	0
Accrued Interest Payable	13,023	65,817	78,840	0
Notes Payable	140,810	2,514,400	2,655,210	0
Claims Payable	5,525	0	5,525	0
Deposits Held and Due to Others	0	289,884	289,884	0
Long-Term Liabilities				
Due Within One Year	1,103,878	1,752,634	2,856,512	0
Due in More Than One Year			0	
Net Pension Liability	8,336,496	2,979,757	11,316,253	0
Other Amounts Due in More Than One Year	1,097,437	14,421,345	15,518,782	0
<b>Total Liabilities</b>	<b>10,985,429</b>	<b>23,289,849</b>	<b>34,275,278</b>	<b>0</b>
<u>Deferred Inflows of Resources</u>				
Payment in Lieu of Taxes	9,807	25,219	35,026	0
Property Taxes	354,391	0	354,391	0
Pension	282,461	102,590	306,650	0
<b>Total Deferred Inflows of Resources</b>	<b>646,659</b>	<b>127,809</b>	<b>696,067</b>	<b>0</b>
<u>Net Position</u>				
Net Investment in Capital Assets	16,637,078	14,286,363	30,923,441	0
Restricted for				
Capital Projects	229,491	0	229,491	0
Police and Fire	1,054,195	0	1,054,195	0
Revolving Loans	1,069,084	0	1,069,084	0
Other Purposes	678,443	0	678,443	0
Unrestricted (Deficit)	(331,510)	9,301,814	8,970,304	10,891,449
<b>Total Net Position</b>	<b>\$19,336,781</b>	<b>\$23,588,177</b>	<b>\$42,924,958</b>	<b>\$10,891,449</b>

\* After deferred outflows and deferred inflows related to the change in internal proportionate share of pension related items have been eliminated.

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Activities  
For the Year Ended December 31, 2017

	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	\$3,257,151	\$37,108	\$5,594	\$0
Fire	1,700,073	553,009	8,595	150,000
Public Health	669,298	239,731	145,510	0
Leisure Time Activities	349,184	11,290	200	63,086
Community Environment	219,550	0	199,674	0
Transportation	2,044,236	265,485	444,542	0
General Government	1,772,386	296,502	17,736	0
Interest and Fiscal Charges	26,813	0	0	0
Total Governmental Activities	10,038,691	1,403,125	821,851	213,086
<u>Business-Type Activities</u>				
Water	2,070,412	1,734,590	0	0
Sewer	2,529,545	1,586,740	0	0
Electric	12,386,059	12,196,017	0	0
Storm Water	582,895	736,404	0	0
Total Business-Type Activities	17,568,911	16,253,751	0	0
Total Primary Government	\$27,607,602	\$17,656,876	\$821,851	\$213,086
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$488,014	\$0	\$0	\$0
Total	\$28,095,616	\$17,656,876	\$821,851	\$213,086

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  
Franchise Taxes  
Interest  
Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$3,214,449)	\$0	(\$3,214,449)	\$0
(988,469)	0	(988,469)	0
(284,057)	0	(284,057)	0
(274,608)	0	(274,608)	0
(19,876)	0	(19,876)	0
(1,334,209)	0	(1,334,209)	0
(1,458,148)	0	(1,458,148)	0
(26,813)	0	(26,813)	0
<u>(7,600,629)</u>	<u>0</u>	<u>(7,600,629)</u>	<u>0</u>
0	(335,822)	(335,822)	0
0	(942,805)	(942,805)	0
0	(190,042)	(190,042)	0
0	153,509	153,509	0
<u>0</u>	<u>(1,315,160)</u>	<u>(1,315,160)</u>	<u>0</u>
<u>(7,600,629)</u>	<u>(1,315,160)</u>	<u>(8,915,789)</u>	<u>0</u>
0	0	0	(488,014)
<u>(7,600,629)</u>	<u>(1,315,160)</u>	<u>(8,915,789)</u>	<u>(488,014)</u>
313,558	0	313,558	0
57,248	0	57,248	0
2,664,643	0	2,664,643	0
2,374,907	0	2,374,907	0
289,735	0	289,735	0
427,853	0	427,853	0
222,078	0	222,078	0
121,434	0	121,434	0
169,674	9,856	179,530	1,460,422
1,054,770	217,712	1,272,482	0
<u>7,695,900</u>	<u>227,568</u>	<u>7,923,468</u>	<u>1,460,422</u>
403	(403)	0	0
<u>7,696,303</u>	<u>227,165</u>	<u>7,923,468</u>	<u>1,460,422</u>
95,674	(1,087,995)	(992,321)	972,408
<u>19,241,107</u>	<u>24,676,172</u>	<u>43,917,279</u>	<u>9,919,041</u>
<u>\$19,336,781</u>	<u>\$23,588,177</u>	<u>\$42,924,958</u>	<u>\$10,891,449</u>

City of Galion  
Balance Sheet  
Governmental Funds  
December 31, 2017

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,384,592	\$357,536	\$668,748	\$6,410,876
Accounts Receivable	130,752	0	14,207	144,959
Accrued Interest Receivable	67,865	0	0	67,865
Due from Other Governments	139,932	0	389,363	529,295
Municipal Income Taxes Receivable	823,500	741,150	82,349	1,646,999
Other Local Taxes Receivable	1,091	0	14,723	15,814
Interfund Receivable	566,811	0	0	566,811
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	18,876	0		18,876
Prepaid Items	25,282	0	7,915	33,197
Materials and Supplies Inventory	0	0	64,470	64,470
Payment in Lieu of Taxes Receivable	0	0	9,807	9,807
Property Taxes Receivable	357,175	0	65,236	422,411
Notes Receivable	0	0	1,033,631	1,033,631
<b>Total Assets</b>	<b>\$7,515,876</b>	<b>\$1,098,686</b>	<b>\$2,350,449</b>	<b>\$10,965,011</b>
<u>Liabilities</u>				
Accrued Wages Payable	\$34,154	\$36,051	\$6,103	\$76,308
Accounts Payable	14,454	0	11,093	25,547
Contracts Payable	4,363	0	3,198	7,561
Due to Other Governments	117,328	8,440	53,076	178,844
Accrued Interest Payable	976	0	189	1,165
Notes Payable	118,000	0	22,810	140,810
Interfund Payable	0	0	304,099	304,099
<b>Total Liabilities</b>	<b>289,275</b>	<b>44,491</b>	<b>400,568</b>	<b>734,334</b>
<u>Deferred Inflows of Resources</u>				
Payment in Lieu of Taxes	0	0	9,807	9,807
Property Taxes	299,657	0	54,734	354,391
Unavailable Revenue	968,784	576,514	288,611	1,833,909
<b>Total Deferred Inflows of Resources</b>	<b>1,268,441</b>	<b>576,514</b>	<b>353,152</b>	<b>2,198,107</b>
<u>Fund Balance</u>				
Nonspendable	44,158	0	72,385	116,543
Restricted	0	477,681	1,732,155	2,209,836
Assigned	414,988	0	0	414,988
Unassigned (Deficit)	5,499,014	0	(207,811)	5,291,203
<b>Total Fund Balance</b>	<b>5,958,160</b>	<b>477,681</b>	<b>1,596,729</b>	<b>8,032,570</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$7,515,876</b>	<b>\$1,098,686</b>	<b>\$2,350,449</b>	<b>\$10,965,011</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Reconciliation of Total Governmental Fund Balance  
to Net Position of Governmental Activities  
December 31, 2017

Total Governmental Fund Balance		\$8,032,570
Amounts reported for governmental activities on the statement of net position are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,204,105
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable	119,490	
Accrued Interest Receivable	43,866	
Due from Other Governments	325,502	
Municipal Income Taxes Receivable	1,277,031	
Delinquent Property Taxes Receivable	68,020	
		1,833,909
An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.		(28,523)
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds; it is reported when due.		(11,858)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Notes Payable	(889,390)	
OPWC Loans Payable	(344,364)	
Police Liability	(20,564)	
Fire Liability	(77,950)	
Capital Loan Payable	(190,406)	
Compensated Absences Payable	(678,641)	
		(2,201,315)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows - Pension	2,049,647	
Deferred Inflows - Pension	(282,461)	
Net Pension Liability	(8,336,496)	
		(6,569,310)
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 position.		77,203
Net Position of Governmental Activities		\$19,336,781

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2017

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$299,436	\$0	\$54,658	\$354,094
Municipal Income Taxes	2,512,285	2,235,933	276,351	5,024,569
Other Local Taxes	427,853	0	195,909	623,762
Charges for Services	1,328,228	0	84,491	1,412,719
Fees, Licenses, and Permits	128,324	0	0	128,324
Fines and Forfeitures	14,536	0	22,572	37,108
Intergovernmental	590,193	0	645,502	1,235,695
Interest	150,041	0	4,769	154,810
Other	720,778	34,861	286,065	1,041,704
<b>Total Revenues</b>	<b>6,171,674</b>	<b>2,270,794</b>	<b>1,570,317</b>	<b>10,012,785</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	929,573	1,940,508	203,010	3,073,091
Fire	973,512	444,549	450,075	1,868,136
Public Health	637,364	0	0	637,364
Leisure Time Activities	0	0	413,473	413,473
Community Environment	219,015	0	535	219,550
Transportation	0	0	1,448,467	1,448,467
General Government	1,631,327	0	1,914	1,633,241
Debt Service:				
Principal Retirement	34,837	0	24,991	59,828
Current Refunding	70,000	0	13,000	83,000
Interest and Fiscal Charges	22,426	0	5,160	27,586
<b>Total Expenditures</b>	<b>4,518,054</b>	<b>2,385,057</b>	<b>2,560,625</b>	<b>9,463,736</b>
Excess of Revenues Over (Under) Expenditures	1,653,620	(114,263)	(990,308)	549,049
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	677,000	0	212,390	889,390
Current Refunding	(485,000)	0	(26,000)	(511,000)
Transfers In	0	0	1,047,795	1,047,795
Transfers Out	(975,586)	0	(71,806)	(1,047,392)
<b>Total Other Financing Sources (Uses)</b>	<b>(783,586)</b>	<b>0</b>	<b>1,162,379</b>	<b>378,793</b>
Changes in Fund Balance	870,034	(114,263)	172,071	927,842
Fund Balance Beginning of Year	5,088,126	591,944	1,424,658	7,104,728
Fund Balance End of Year	<u>\$5,958,160</u>	<u>\$477,681</u>	<u>\$1,596,729</u>	<u>\$8,032,570</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
 Reconciliation of Statement of Revenues, Expenditures,  
 and Changes in Fund Balance  
 of Governmental Funds to Statement of Activities  
 For the Year Ended December 31, 2017

Changes in Fund Balance - Total Governmental Funds \$927,842

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	327,539	
Capital Outlay - Depreciable Capital Assets	853,332	
Depreciation	<u>(1,321,635)</u>	(140,764)

The book value of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (25,230)

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

Delinquent Property Taxes	16,712	
Municipal Income Taxes	304,716	
Charges for Services	(251,414)	
Fees, Licenses, and Permits	1,913	
Intergovernmental	16,699	
Interest	19,285	
Other	<u>13,266</u>	121,177

Debt proceeds are reported as other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net position.

Notes Issued (889,390)

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

Bond Anticipation Notes Payable	594,000	
OPWC Loans Payable	21,246	
Police Liability	782	
Fire Liability	2,963	
Capital Loan Payable	<u>34,837</u>	653,828

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. 773

Compensated absences 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. 41,934

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (1,226,970)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. 623,574

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. 8,900

Change in Net Position of Governmental Activities \$95,674

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$328,004	\$328,004	\$299,436	(\$28,568)
Municipal Income Taxes	2,483,522	2,483,522	2,516,728	33,206
Other Local Taxes	421,025	421,025	428,050	7,025
Charges for Services	986,092	986,092	1,066,264	80,172
Fees, Licenses, and Permits	165,155	165,155	128,324	(36,831)
Fines and Forfeitures	17,403	17,403	14,372	(3,031)
Intergovernmental	338,045	338,045	592,644	254,599
Interest	170,000	170,000	149,810	(20,190)
Other	217,260	217,260	661,522	444,262
<b>Total Revenues</b>	<b>5,126,506</b>	<b>5,126,506</b>	<b>5,857,150</b>	<b>730,644</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,022,656	1,027,656	934,058	93,598
Fire	1,127,970	1,200,970	984,751	216,219
Public Health	520,151	667,331	640,225	27,106
Community Environment	278,402	278,402	255,428	22,974
General Government	2,011,281	2,035,281	1,722,736	312,545
Debt Service:				
Principal Retirement	660,000	660,000	659,837	163
Interest and Fiscal Charges	24,000	24,000	22,323	1,677
<b>Total Expenditures</b>	<b>5,644,460</b>	<b>5,893,640</b>	<b>5,219,358</b>	<b>674,282</b>
Excess of Revenues Over (Under) Expenditures	(517,954)	(767,134)	637,792	1,404,926
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	0	0	60,305	60,305
Bond Anticipation Notes Issued	740,000	740,000	795,000	55,000
Advances In	71,806	71,806	71,806	0
Advances Out	(113,806)	(299,806)	(257,443)	42,363
Transfers Out	(1,130,068)	(1,130,068)	(975,586)	154,482
<b>Total Other Financing Uses</b>	<b>(432,068)</b>	<b>(618,068)</b>	<b>(305,918)</b>	<b>312,150</b>
Changes in Fund Balance	(950,022)	(1,385,202)	331,874	1,717,076
Fund Balance Beginning of Year	4,631,432	4,631,432	4,631,432	0
Prior Year Encumbrances Appropriated	273,389	273,389	273,389	0
<b>Fund Balance End of Year</b>	<b>\$3,954,799</b>	<b>\$3,519,619</b>	<b>\$5,236,695</b>	<b>\$1,717,076</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$2,210,333	\$2,210,333	\$2,239,888	\$29,555
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,190,400	1,190,400	1,031,521	158,879
Fire	943,900	969,400	929,670	39,730
General Government	73,260	422,039	422,039	0
Total Expenditures	2,207,560	2,581,839	2,383,230	198,609
Excess of Revenues Over (Under) Expenditures	2,773	(371,506)	(143,342)	228,164
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	34,861	34,861
Changes in Fund Balance	2,773	(371,506)	(108,481)	263,025
Fund Balance Beginning of Year	422,701	422,701	422,701	0
Fund Balance End of Year	<u>\$425,474</u>	<u>\$51,195</u>	<u>\$314,220</u>	<u>\$263,025</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2017

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Assets</u>					
<u>Current Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,370,222	\$3,801,059	\$4,658,761	\$1,061,431	\$11,891,473
Accounts Receivable	377,394	302,525	2,126,386	92,665	2,898,970
Excise Taxes Receivable	0	0	35,784	0	35,784
Interfund Receivable	7,516	2,792	34,717	36,348	81,373
Prepaid Items	4,824	4,824	8,804	1,115	19,567
Materials and Supplies Inventory	17,532	3,792	0	0	21,324
Payment in Lieu of Taxes Receivable	3,503	7,355	0	14,361	25,219
Special Assessments Receivable	10,742	17,527	0	0	28,269
Total Current Assets	<u>2,791,733</u>	<u>4,139,874</u>	<u>6,864,452</u>	<u>1,205,920</u>	<u>15,001,979</u>
<u>Non-Current Assets</u>					
Restricted Assets					
Equity in Pooled Cash and Cash Equivalents	82,219	78,743	128,922	0	289,884
Special Assessments Receivable	75,196	122,687	0	0	197,883
Nondepreciable Capital Assets	902,699	1,188,881	5,380,045	3,529	7,475,154
Depreciable Capital Assets, Net	5,745,432	7,030,056	5,037,453	4,916,148	22,729,089
Investment in Joint Venture	0	0	451,375	0	451,375
Total Non-Current Assets	<u>6,805,546</u>	<u>8,420,367</u>	<u>10,997,795</u>	<u>4,919,677</u>	<u>31,143,385</u>
Total Assets	<u>9,597,279</u>	<u>12,560,241</u>	<u>17,862,247</u>	<u>6,125,597</u>	<u>46,145,364</u>
<u>Deferred Outflows of Resources</u>					
Pension	359,991	312,156	381,237	136,951	1,190,335
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Accrued Wages Payable	10,397	8,563	9,645	1,954	30,559
Accounts Payable	7,413	45,096	931,216	1,013	984,738
Contracts Payable	0	12,380	4,915	2,344	19,639
Due to Other Governments	9,587	14,464	14,727	4,110	42,888
Retainage Payable	0	0	188,188	0	188,188
Compensated Absences Payable	32,761	29,394	95,531	10,793	168,479
Interfund Payable	105,655	88,235	128,229	21,966	344,085
Accrued Interest Payable	0	7,581	58,042	194	65,817
Notes Payable	0	916,000	1,575,000	23,400	2,514,400
Claims Payable	0	0	0	0	0
General Obligation Bonds Payable	0	0	921,000	0	921,000
OPWC Loans Payable	10,555	0	0	41,925	52,480
OWDA Loans Payable	283,363	259,189	0	0	542,552
AMP Ohio Payable	0	0	68,123	0	68,123
Total Current Liabilities	<u>459,731</u>	<u>1,380,902</u>	<u>3,994,616</u>	<u>107,699</u>	<u>5,942,948</u>

Governmental  
Activity  

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Internal  
Service  
Fund  

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\$82,728  
0  
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82,728  

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82,728  

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5,525  
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0  
0  

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5,525  

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City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2017  
(continued)

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Non-Current Liabilities</u>					
Deposits Held and Due to Others	\$82,219	\$78,743	\$128,922	\$0	\$289,884
General Obligation Bonds Payable	0	0	4,030,000	0	4,030,000
OPWC Loans Payable	54,445	0	0	644,853	699,298
OWDA Loans Payable	4,669,400	4,092,460	0	0	8,761,860
Compensated Absences Payable	150,718	213,119	0	19,449	383,286
AMP Ohio Payable	0	0	546,901	0	546,901
Net Pension Liability	921,016	812,660	921,016	325,065	2,979,757
<b>Total Non-Current Liabilities</b>	<b>5,877,798</b>	<b>5,196,982</b>	<b>5,626,839</b>	<b>989,367</b>	<b>17,690,986</b>
<b>Total Liabilities</b>	<b>6,337,529</b>	<b>6,577,884</b>	<b>9,621,455</b>	<b>1,097,066</b>	<b>23,633,934</b>
<u>Deferred Inflows of Resources</u>					
Payment in Lieu of Taxes	3,503	7,355	0	14,361	25,219
Pension	6,579	20,108	87,883	2,322	116,892
<b>Total Deferred Inflows of Resources</b>	<b>10,082</b>	<b>27,463</b>	<b>87,883</b>	<b>16,683</b>	<b>142,111</b>
<u>Net Position</u>					
Net Investment in Capital Assets	1,630,368	3,748,119	4,700,370	4,207,506	14,286,363
Unrestricted	1,979,291	2,518,931	3,833,776	941,293	9,273,291
<b>Total Net Position</b>	<b>\$3,609,659</b>	<b>\$6,267,050</b>	<b>\$8,534,146</b>	<b>\$5,148,799</b>	<b>23,559,654</b>
Net position reported for business-type activities on the statement of net position is different because it includes a proportionate share of the balance of the internal service fund.				28,523	
Net position of business-type activities				<b>\$23,588,177</b>	

See Accompanying Notes to the Basic Financial Statements

Governmental  
Activity  
Internal  
Service  
Fund

\$0  
0  
0  
0  
0  
0  
0

0

5,525

0

0

0

0

77,203

\$77,203

City of Galion  
Statement of Revenues, Expenses,  
and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2017

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Operating Revenues</u>					
Charges for Services	\$1,734,590	\$1,586,740	\$12,196,017	\$736,404	\$16,253,751
Other	42,562	48,292	102,796	24,062	217,712
Total Operating Revenues	<u>1,777,152</u>	<u>1,635,032</u>	<u>12,298,813</u>	<u>760,466</u>	<u>16,471,463</u>
<u>Operating Expenses</u>					
Salaries	555,581	514,941	628,116	168,004	1,866,642
Benefits	401,842	403,109	560,674	174,528	1,540,153
Contractual Services	258,033	287,830	10,107,001	43,528	10,696,392
Materials and Supplies	244,269	460,480	202,433	48,705	955,887
Bad Debt	0	0	177,675	1,788	179,463
Claims	0	0	0	0	0
Depreciation	369,571	610,136	216,673	124,209	1,320,589
Other	84,130	79,994	95,199	21,966	281,289
Total Operating Expenses	<u>1,913,426</u>	<u>2,356,490</u>	<u>11,987,771</u>	<u>582,728</u>	<u>16,840,415</u>
Operating Income (Loss)	<u>(136,274)</u>	<u>(721,458)</u>	<u>311,042</u>	<u>177,738</u>	<u>(368,952)</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Revenue	0	0	9,856	0	9,856
Interest Expense	(158,554)	(174,571)	(258,028)	(271)	(591,424)
Loss from Joint Venture	0	0	(142,300)	0	(142,300)
Total Non-Operating Revenues (Expenses)	<u>(158,554)</u>	<u>(174,571)</u>	<u>(390,472)</u>	<u>(271)</u>	<u>(723,868)</u>
Income (Loss) before Transfers	(294,828)	(896,029)	(79,430)	177,467	(1,092,820)
Transfers In	27,286	44,520	0	0	71,806
Transfers Out	(27,439)	(44,770)	0	0	(72,209)
Changes in Net Position	(294,981)	(896,279)	(79,430)	177,467	(1,093,223)
Net Position Beginning of Year	<u>3,904,640</u>	<u>7,163,329</u>	<u>8,613,576</u>	<u>4,971,332</u>	
Net Position End of Year	<u>\$3,609,659</u>	<u>\$6,267,050</u>	<u>\$8,534,146</u>	<u>\$5,148,799</u>	
The change in net position 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.				<u>5,228</u>	
Change in net position of business-type activities				<u>(\$1,087,995)</u>	

See Accompanying Notes to the Basic Financial Statements

Governmental  
Activity  
Internal  
Service  
Fund

\$84,000  
0

84,000

0  
0  
0  
0  
0  
69,872  
0  
0

69,872

14,128

0  
0  
0

0

14,128

0  
0

14,128

63,075

\$77,203

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2017

	<u>Business-Type Activities</u>			
	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Storm Water</u>
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,745,731	\$1,586,189	\$11,933,763	\$729,828
Cash Received from				
Transactions with Other Funds	0	0	0	0
Cash Received from Deposits	22,875	22,700	44,976	0
Cash Received from Other Revenues	37,824	38,343	106,637	4,637
Cash Payments for Salaries	(540,587)	(473,698)	(647,009)	(153,088)
Cash Payments for Benefits	(255,812)	(292,556)	(418,974)	(114,532)
Cash Payments for Contractual Services	(259,123)	(243,163)	(10,353,181)	(42,626)
Cash Payments for Materials and Supplies	(246,824)	(561,852)	(204,362)	(58,020)
Cash Payments for Claims	0	0	0	0
Cash Payments for Deposits Refunded	(21,984)	(21,910)	(44,586)	0
Cash Payments for Other Expenses	(83,456)	(78,440)	(90,681)	(24,280)
Net Cash Provided by (Used for) Operating Activities	<u>398,644</u>	<u>(24,387)</u>	<u>326,583</u>	<u>341,919</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers Out	(16,872)	(27,528)	0	0
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes	0	(580,000)	0	(31,200)
Principal Paid on General Obligation Bonds	0	0	(888,000)	0
Principal Paid on OPWC Loans	(10,555)	0	0	(41,925)
Principal Paid on OWDA Loans	(254,953)	(206,896)	0	0
Interest Paid on Bond Anticipation Notes	0	(13,156)	0	(466)
Interest Paid on General Obligation Bonds	0	0	(252,419)	0
Interest Paid on OWDA Loans	(151,374)	(149,347)	0	0
Bond Anticipation Notes Issued	0	916,000	1,575,000	23,400
OWDA Loans Issued	0	7,237	0	0
Acquisition of Capital Assets	(61,529)	(130,477)	(717,559)	(125,567)
Net Cash Used for Capital and Related Financing Activities	<u>(478,411)</u>	<u>(156,639)</u>	<u>(282,978)</u>	<u>(175,758)</u>
<u>Cash Flows from Investing Activities</u>				
Interest	0	0	9,856	0
Net Increase (Decrease) in Cash and Cash Equivalents	(96,639)	(208,554)	53,461	166,161
Cash and Cash Equivalents Beginning of Year	<u>2,549,080</u>	<u>4,088,356</u>	<u>4,734,222</u>	<u>895,270</u>
Cash and Cash Equivalents End of Year	<u>\$2,452,441</u>	<u>\$3,879,802</u>	<u>\$4,787,683</u>	<u>\$1,061,431</u>

Total Enterprise Funds	Governmental Activity <u>Internal Service Fund</u>
\$15,995,511	\$0
0	84,000
90,551	0
187,441	0
(1,814,382)	0
(1,081,874)	0
(10,898,093)	0
(1,071,058)	0
0	(73,154)
(88,480)	0
(276,857)	0
<u>1,042,759</u>	<u>10,846</u>
<u>(44,400)</u>	<u>0</u>
(611,200)	0
(888,000)	0
(52,480)	0
(461,849)	0
(13,622)	0
(252,419)	0
(300,721)	0
2,514,400	0
7,237	0
(1,035,132)	0
<u>(1,093,786)</u>	<u>0</u>
<u>9,856</u>	<u>0</u>
(85,571)	10,846
<u>12,266,928</u>	<u>71,882</u>
<u>\$12,181,357</u>	<u>\$82,728</u>

(continued)

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2017  
(continued)

	Business-Type Activities			
	Water	Sewer	Electric	Storm Water
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	(\$136,274)	(\$721,458)	\$311,042	\$177,738
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Allowance for Uncollectibles	(7,885)	(9,265)	177,675	1,788
Depreciation	369,571	610,136	216,673	124,209
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	6,228	(10,785)	(275,930)	(26,001)
Decrease in Excise Taxes Receivable	0	0	1,299	0
(Increase) Decrease in Interfund Receivable	(2,217)	(2,792)	17,517	(9,643)
Decrease in Prepaid Items	14,641	11,074	18,450	5,297
(Increase) Decrease in Materials and Supplies Inventory	14,156	(725)	0	0
Decrease in Special Assessments Receivable	175	285	0	0
Increase (Decrease) in Accrued Wages Payable	572	466	(1,932)	(176)
Increase (Decrease) in Accounts Payable	(5,696)	33,632	53,057	598
Increase (Decrease) in Contracts Payable	0	(73,698)	0	351
Increase (Decrease) in Due to Other Governments	(1,162)	4,308	(4,021)	339
Decrease in Retainage Payable	0	(3,828)	0	0
Increase (Decrease) in Compensated Absences Payable	14,422	40,777	(16,961)	15,092
Increase (Decrease) in Interfund Payable	415	(1,772)	3,450	(2,314)
Decrease in Claims Payable	0	0	0	0
Increase in Deposits Held and Due to Others	891	790	390	0
Decrease in AMP Ohio Payable	0	0	(298,949)	0
Increase in Net Pension Liability	20,617	18,192	20,617	7,276
Decrease in Deferred Outflows - Pension	122,829	103,679	155,829	51,826
Decrease in Deferred Inflows - Pension	(12,639)	(23,403)	(51,623)	(4,461)
Net Cash Provided by (Used for) Operating Activities	\$398,644	(\$24,387)	\$326,583	\$341,919

Non-Cash Capital Transactions

At December 31, 2016, the Water enterprise fund had payables related to the acquisition of capital assets, in the amount of \$194.

At December 31, 2017, the Sewer enterprise fund had payables related to the acquisition of capital assets, in the amount of \$9,822.

At December 31, 2016, the Electric enterprise fund had payables related to the acquisition of capital assets, in the amount of \$438,091.

At December 31, 2017, the Electric enterprise fund had payables related to the acquisition of capital assets, in the amount of \$193,103.

At December 31, 2017, the Storm Water enterprise fund had payables related to the acquisition of capital assets, in the amount of \$1,993.

See Accompanying Notes to the Basic Financial Statements

Total Enterprise Funds	Governmental Activity <u>Internal Service Fund</u>
(\$368,952)	\$14,128
162,313	0
1,320,589	0
(306,488)	0
1,299	0
2,865	0
49,462	0
13,431	0
460	0
(1,070)	0
81,591	0
(73,347)	0
(536)	0
(3,828)	0
53,330	0
(221)	0
0	(3,282)
2,071	0
(298,949)	0
66,702	0
434,163	0
(92,126)	0
<u>\$1,042,759</u>	<u>\$10,846</u>

City of Galion  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2017

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$53,029</u>
 <u>Liabilities</u>	
Undistributed Assets	<u>\$53,029</u>

See Accompanying Notes to the Basic Financial Statements

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

**A. The City**

The City of Galion is a statutory municipal corporation operating under the laws of the State of Ohio. Galion was incorporated as a city in 1842.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Service-Safety Director, are elected positions. The Service-Safety Director is appointed by the Mayor.

The City of Galion is divided into various departments and financial management and control systems. 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 the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and 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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

**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 22 to the basic financial statements.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**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 2017, the City received \$200,000 from the Foundation. 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 a public entity shared risk pool, two joint ventures, a jointly governed organization, and a related organization. These organizations are the Public Entities Pool of Ohio, 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, and the Galion Public Library. These organizations are presented in Notes 23, 24, 25, and 26 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. 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 position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net position 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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and 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 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. Fiduciary funds are reported by type.

**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 three categories; governmental, proprietary, and fiduciary.

**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 and deferred inflows of resources is reported as fund balance. 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 restricted to provide resources for operating the police and fire departments.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, 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 dental and vision benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2017. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for transient fees collected for use by a convention and visitors bureau and for health care contributions deducted from employee salaries.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

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 position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets 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 position. The statement of revenues, expenses, and changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statement of cash flows 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 and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred outflows and deferred inflows of resources, 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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

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.

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the City, deferred outflows of resources are reported on the government-wide and proprietary funds statement of net position for pension and explained in Note 15 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2017, but which were levied to finance 2018 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position and explained in Note 15 to the basic financial statements.

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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

E. Budgetary Process

All funds, except agency 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 Auditor. 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.

F. Cash and Investments

To improve cash management, cash received by the City 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".

During 2017, the City invested in mutual funds, negotiable certificates of deposit, federal agency securities, and STAR Ohio. Investments are reported at fair value. Fair value is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants". The City measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. Star Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s) but only to the \$50 million limit. All accounts of the participant will be combined for this purpose.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2017 was \$150,041 which includes \$93,722 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.

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 position 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, 2017, 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.

**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 position 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 position and in the respective funds.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition 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 are depreciated, except for land and construction in progress. 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	13-100 years	13-100 years
Improvements Other Than Buildings	20-25 years	30-100 years
Streets	10-40 years	N/A
Bridges	50 years	N/A
Water, Sewer, Electric, and Storm Water Lines	N/A	50 years
Equipment	5-20 years	10-50 years
Vehicles	5-30 years	10-15 years

**K. Interfund Activity**

On fund financial statements, receivables and payables resulting from short-term interfund loans or unpaid amounts for interfund services provided are reported as "Interfund Receivables/Payables". Interfund balances are eliminated on the statement of net position except for any net residual amounts due between governmental and business-type activities. These amounts are reflected as "Internal Balances".

Deferred inflows of resources and deferred outflows of resources from the change in proportionate share related to pension items are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts between governmental and business-type activities. These residual amounts are eliminated in the total column on the government-wide statement of net position.

**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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

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, net pension liability and 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. Long-term notes, OPWC loans, the police and fire liability, and capital loans are recognized as liabilities on the fund financial statements when due.

**N. Net Position**

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its 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 position restricted for other purposes includes activities for maintenance of highways and various recreational activities. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**O. Fund Balance**

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

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

**Restricted** - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means the City can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by City Council. The City Council has authorized the Auditor to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council has also assigned amounts to cover a gap between estimated resources and appropriations in the 2018 budget.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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

**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. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**S. 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 2017, the City has implemented Governmental Accounting Standard Board (GASB) Implementation Guide No. 2016-1. These changes were incorporated in the City's 2017 financial statements; however, there was no effect on beginning net position/fund balance.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 4 - ACCOUNTABILITY**

At December 31, 2017, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
FEMA	\$36,000
Airport	1,622
Police Pension	16,070
Fire Pension	22,963
Nonmajor Debt Service Fund	
Cheshire Special Assessment	71,443

The deficit fund balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**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 restricted, committed, or assigned fund balance (GAAP basis).

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING** (continued)

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

	<u>General</u>	<u>Police and Fire Levy</u>
GAAP Basis	\$870,034	(\$114,263)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2016, Received in Cash 2017	307,023	168,591
Accrued 2017, Not Yet Received in Cash	(561,242)	(164,636)
Expenditure Accruals:		
Accrued 2016, Paid in Cash 2017	(198,852)	(42,469)
Accrued 2017, Not Yet Paid in Cash	171,275	44,491
Cash Accruals:		
Unrecorded Activity 2016	1,350	0
Unrecorded Activity 2017	(1,338)	0
Prepaid Items	46,696	43,121
Bond Anticipation Notes Issued	118,000	0
Bond Anticipation Notes Retired	(70,000)	0
Advances In	71,806	0
Advances Out	(257,443)	0
Encumbrances Outstanding at Year End (Budget Basis)	(165,435)	(43,316)
Budget Basis	<u>\$331,874</u>	<u>(\$108,481)</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent, be marked to market daily, and the term must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations provided securities described in this division are made only through eligible institutions;
6. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
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 40 percent of the interim monies available for investment at any one time.

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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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 Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Investments**

Investments are reported at fair value. As of December 31, 2017, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Less Than Six Months</u>	<u>Six Months to One Year</u>	<u>One Year to Two Years</u>	<u>More Than Two Years</u>
Fair Value - Level One Inputs					
Mutual Funds	\$18,261	\$18,261	\$0	\$0	\$0
Fair Value - Level Two Inputs					
Negotiable Certificates of Deposit	3,179,833	0	1,732,195	0	1,447,638
Federal Home Loan Bank Notes	1,356,841	0	0	0	1,356,841
Federal Home Loan Mortgage Corporation Notes	6,167,165	0	1,494,762	1,820,014	2,852,389
Federal National Mortgage Association Notes	2,259,272	0	0	1,482,712	776,560
Total Fair Value - Level Two Inputs	<u>12,963,111</u>	<u>0</u>	<u>3,226,957</u>	<u>3,302,726</u>	<u>6,433,428</u>
Net Value Per Share STAR Ohio	1,066,442	1,066,442	0	0	0
Total Investments	<u>\$14,047,814</u>	<u>\$1,084,703</u>	<u>\$3,226,957</u>	<u>\$3,302,726</u>	<u>\$6,433,428</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2017. The City's investment in mutual funds measured at fair value are valued using quoted market prices (Level 1 inputs). The remainder of the City's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/ dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 inputs).

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the City from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The negotiable certificates of deposit are generally covered by FDIC insurance. The federal agency securities and mutual funds carry a rating of Aaa by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The City places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the City's total portfolio:

	Fair Value	Percentage of Portfolio
Negotiable Certificates of Deposit	\$3,179,833	22.64%
Federal Home Loan Bank	1,356,841	9.66
Federal Home Loan Mortgage Corporation	6,167,165	43.90
Federal National Mortgage Association	2,259,272	16.08

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2017, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; payment in lieu of taxes; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for municipal income taxes, property taxes, notes, special assessments, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$1,022,225, will not be received within one year. Special assessments, in the amount of \$197,883, will not be received within one year. At December 31, 2017, the amount of delinquent special assessments was \$643.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$596,408	\$502,562	\$3,844,116	\$188,442	\$5,131,528
Less Allowance for Uncollectibles	(219,014)	(200,037)	(1,717,730)	(95,777)	(2,232,558)
Net Accounts Receivable	<u>\$377,394</u>	<u>\$302,525</u>	<u>\$2,126,386</u>	<u>\$92,665</u>	<u>\$2,898,970</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 7 - RECEIVABLES** (continued)

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 4 percent and are paid over a period of 15 years.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$25,940
Local Government	77,523
Cigarette Taxes	362
Crawford County	1,057
Victims of Crime	15,713
Bureau of Motor Vehicles	100
Ohio Department of Health	19,237
Total General Fund	139,932
Nonmajor Funds	
Police Drug Fines	
Crawford County	208
Law Enforcement Assistance	
State of Ohio	6,260
OVI Enforcement and Education	
Crawford County	75
Street Maintenance	
Gasoline Tax	157,995
Motor Vehicle License Tax	35,484
Total Street Maintenance	193,479
State Highway	
Gasoline Tax	12,810
Motor Vehicle License Tax	2,877
Total State Highway	15,687
FEMA	
Local Government Safety Capital Grant	150,000
Recreation	
Natureworks Grant	18,930
Police Pension	
Homestead and Rollback	2,362
Fire Pension	
Homestead and Rollback	2,362
Total Nonmajor Funds	389,363
Total Governmental Activities	\$529,295

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**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 and 1 percent approved by voters; .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 - PAYMENT IN LIEU OF TAXES**

According to State law, the City has established tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if their taxes had not been exempted. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may, therefore, spread the costs of the improvements to a larger number of property owners.

**NOTE 10 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2017 represent the collection of 2016 taxes. Real property taxes received in 2017 were levied after October 1, 2016, on the assessed values as of January 1, 2016, 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.

Public utility property tax revenues received in 2017 represent the collection of 2016 taxes. Public utility real and tangible personal property taxes received in 2017 became a lien on December 31, 2015, were levied after October 1, 2016, 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.

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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 10 - PROPERTY TAXES** (continued)

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2017, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2017 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2017, was \$3.90 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2017 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	
Agricultural	\$950,000
Residential	80,121,030
Commercial	18,507,860
Industrial	6,166,490
Public Utility Property	
Real	45,420
Personal	1,498,870
Total Assessed Value	<u>\$107,289,670</u>

**NOTE 11 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2017</u>
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,485,816	\$0	\$0	\$3,485,816
Construction in Progress	28,319	327,539	(338,529)	17,329
Total Nondepreciable Capital Assets	<u>3,514,135</u>	<u>327,539</u>	<u>(338,529)</u>	<u>3,503,145</u>
Depreciable Capital Assets				
Buildings	1,071,062	129,048	0	1,200,110
Improvements Other Than Buildings	1,655,753	0	0	1,655,753
Streets	29,129,998	637,729	(29,193)	29,738,534
Bridges	1,236,330	0	0	1,236,330
Equipment	1,326,646	0	0	1,326,646
Vehicles	3,124,086	425,084	(419,826)	3,129,344
Total Depreciable Capital Assets	<u>37,543,875</u>	<u>1,191,861</u>	<u>(449,019)</u>	<u>38,286,717</u>

(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 11 - CAPITAL ASSETS** (continued)

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
<b>Governmental Activities: (continued)</b>				
Less Accumulated Depreciation for				
Buildings	(\$592,202)	(\$30,316)	\$0	(\$622,518)
Improvements Other Than Buildings	(487,109)	(74,071)	0	(561,180)
Streets	(18,770,477)	(997,220)	29,193	(19,738,504)
Bridges	(697,359)	(24,727)	0	(722,086)
Equipment	(760,369)	(71,755)	0	(832,124)
Vehicles	(1,380,395)	(123,546)	394,596	(1,109,345)
Total Accumulated Depreciation	(22,687,911)	(1,321,635)	423,789	(23,585,757)
Total Depreciable Capital Assets, Net	14,855,964	(129,774)	(25,230)	14,700,960
Governmental Activities Capital Assets, Net	<u>\$18,370,099</u>	<u>\$197,765</u>	<u>(\$363,759)</u>	<u>\$18,204,105</u>
	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
<b>Business-Type Activities:</b>				
<b>Nondepreciable Capital Assets</b>				
Land	\$2,211,015	\$0	\$0	\$2,211,015
Construction in Progress	4,745,729	518,410	0	5,264,139
Total Nondepreciable Capital Assets	6,956,744	518,410	0	7,475,154
<b>Depreciable Capital Assets</b>				
Buildings	19,700,245	0	0	19,700,245
Improvements Other Than Buildings	7,599,975	0	0	7,599,975
Water, Sewer, Electric, and Storm Water Lines	13,764,593	97,989	(365)	13,862,217
Equipment	3,417,409	185,366	0	3,602,775
Vehicles	1,802,042	0	(323,190)	1,478,852
Total Depreciable Capital Assets	46,284,264	283,355	(323,555)	46,244,064
Less Accumulated Depreciation for				
Buildings	(11,995,650)	(712,023)	0	(12,707,673)
Improvements Other Than Buildings	(2,766,952)	(140,747)	0	(2,907,699)
Water, Sewer, Electric, and Storm Water Lines	(4,525,269)	(266,778)	365	(4,791,682)
Equipment	(2,236,778)	(132,024)	0	(2,368,802)
Vehicles	(993,292)	(69,017)	323,190	(739,119)
Total Accumulated Depreciation	(22,517,941)	(1,320,589)	323,555	(23,514,975)
Total Depreciable Capital Assets, Net	23,766,323	(1,037,234)	0	22,729,089
Business-Type Activities Capital Assets, Net	<u>\$30,723,067</u>	<u>(\$518,824)</u>	<u>\$0</u>	<u>\$30,204,243</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 11 - CAPITAL ASSETS** (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$24,065
Security of Persons and Property - Fire	82,543
Public Health	2,331
Leisure Time Activities	59,049
Transportation	1,129,676
General Government	23,971
Total Depreciation Expense - Governmental Activities	<u><u>\$1,321,365</u></u>

**NOTE 12 - INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2017, the General Fund had an interfund receivable, in the amount of \$566,811; \$257,443 from other governmental funds for short-term loans made to those funds, and \$84,130 from the Water enterprise fund, \$75,043 from the Sewer enterprise fund, \$128,229 from the Electric enterprise fund, and \$21,966 from the Storm Water enterprise fund for services provided to those funds.

The Water enterprise fund had an interfund receivable, in the amount of \$7,516 from other governmental funds for payments made on capital projects.

The Sewer enterprise fund had an interfund receivable, in the amount of \$2,792 from other governmental funds for payments made on capital projects.

The Electric enterprise fund had an interfund receivable, in the amount of \$34,717; \$21,525 from the Water enterprise fund, and \$13,192 from the Sewer enterprise fund for services provided to those funds.

The Storm Water enterprise fund had an interfund receivable, in the amount of \$36,348, from other governmental funds for payments made on capital projects.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 13 - 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. The City participates in the Public Entities Pool of Ohio, a public entity shared risk pool. The City pays an annual premium to the pool for various types of insurance coverage. Member cities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage. Upon withdrawal from the Pool, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal. During 2017, the City had the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$35,759,447	\$1,000
Flood/Earthquake	1,000,000	50,000
General Liability		
Per Occurrence	6,000,000	0
Employee Benefits Liability	1,000,000	0
Stop Gap Liability	6,000,000	0
Law Enforcement Liability	6,000,000	5,000
Automobile Liability	6,000,000	0
Cyber Liability	6,000,000	0
Crime Coverage	6,000,000	1,000

There has been no significant reduction in insurance coverage from 2016 and no insurance settlement has exceeded insurance coverage during the last three years.

The City offers dental and vision 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. 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.

The changes in the claims liability for 2017 and 2016 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2017	\$8,807	\$69,872	\$73,154	\$5,525
2016	6,759	61,400	59,352	8,807

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 14 - SIGNIFICANT CONTRACTUAL COMMITMENTS**

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2017:

Vendor	Contract Amount	Amount Paid as of 12/31/17	Outstanding Balance
Allied Pump Rentals	\$18,000	\$0	\$18,000
CT Consultants	40,000	27,280	12,720
GDP Group	130,490	66,545	63,945
Heiberger Paving, Inc.	120,000	0	120,000
ISE Excavating, LLC	15,000	12,395	2,605
Main Lite Electric Co., Inc.	741,000	249,396	491,604
Makeever and Associates, Inc.	109,750	23,225	86,525
Norwalk Concrete Industries	60,000	0	60,000
Perspectus Architecture, LLC	15,000	0	15,000
Peterson Construction	365,000	313,809	51,191
Pipe-Valves, Inc.	18,500	0	18,500
Southway Fence Company	19,000	0	19,000

At year end, the significant encumbrances expected to be honored upon performance by the vendor in 2018 are as follows:

General Fund	\$165,435
Police and Fire Levy	269,587
Other Governmental Funds	43,316

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables including estimated average life expectancies, earnings on investments, cost of living adjustments, and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation, including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually required pension contribution outstanding at the end of the year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

**Plan Description - Ohio Public Employees Retirement System (OPERS)**

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information including requirements for reduced and unreduced benefits).

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013, or five years after January 7, 2013	20 years of service credit prior to January 7, 2013, or eligible to retire ten years after January 7, 2013	Members not in other groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 years
<b>Public Safety</b>	<b>Public Safety</b>	<b>Public Safety</b>
<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Law Enforcement</b>	<b>Law Enforcement</b>	<b>Law Enforcement</b>
<b>Age and Service Requirements:</b> Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>
<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for twelve months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index capped at 3 percent.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows.

	State and Local	Public Safety	Law Enforcement
<b>2017 Statutory Maximum Contribution Rates</b>			
Employer	14.0%	18.1%	18.1%
Employee	10.0 %	*	**
<b>2017 Actual Contribution Rates</b>			
Employer			
Pension	13.0 %	17.1 %	17.1 %
Postemployment Health Care Benefits	1.0	1.0	1.0
Total Employer	14.0 %	18.1 %	18.1 %
Total Employee	10.0 %	12.0 %	13.0 %

\* This rate is determined by OPERS' Board and has no maximum rate established by the ORC.

\*\* This rate is also determined by OPERS' Board but is limited by the ORC to not more than 2 percent greater than the public safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$407,544 for 2017. Of this amount, \$44,559 is reported as an intergovernmental payable.

**Plan Description - Ohio Police and Fire Pension Fund (OPF)**

Plan Description - Full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing multiple-employer defined benefit pension plan administered by OPF. 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 publicly available financial report that includes financial information, required supplementary information, and detailed information about OPF's fiduciary net position that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, an OPF member may retire and receive a lifetime monthly pension. OPF offers four types of service retirement; normal, service commuted, age/service commuted, and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

For members hired after July 1, 2013, the minimum retirement age is fifty-two for normal service retirement with at least twenty-five years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is forty-eight for normal service retirement with at least twenty-five years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first twenty years of service credit, 2 percent for each of the next five years of service credit, and 1.5 percent for each year of service credit in excess of twenty-five years. The maximum pension of 72 percent of the allowable average annual salary is paid after thirty-three years of service credit. (See OPF CAFR referenced above for additional information including requirements for deferred retirement option plan provisions and reduced and unreduced benefits.)

Under normal service retirement, retired members who are at least fifty-five years old and have been receiving OPF benefits for at least one year may be eligible for a cost of living allowance adjustment. The age fifty-five provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than fifteen years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3 percent or the percentage increase in the Consumer Price Index, if any, over the twelve month period ending on September 30 of the immediately preceding year rounded to the nearest one-tenth of one percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows.

	Police	Firefighters
<b>2017 Statutory Maximum Contribution Rates</b>		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 <b>2017 Actual Contribution Rates</b>		
Employer		
Pension	19.00 %	23.50 %
Postemployment Health Care Benefits	.50	.50
Total Employer	19.50 %	24.00 %
Total Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution was \$440,179 for 2017. Of this amount, \$49,686 is reported as an intergovernmental payable.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

In addition to current contributions, the City pays installments on a specific liability the City incurred when the State of Ohio established the Statewide pension system for police and firefighters in 1967. As of December 31, 2017, this liability was \$98,514 payable in semi-annual payments through 2035.

**Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension**

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Current Measurement Date	0.02385800%	0.09312600%	
Prior Measurement Date	<u>0.02393400%</u>	<u>0.09875600%</u>	
Change in Proportionate Share	<u>0.00007600%</u>	<u>0.00563000%</u>	
Proportionate Share of the Net			
Pension Liability	\$5,417,745	\$5,898,508	\$11,316,253
Pension Expense	\$1,176,995	\$682,863	\$1,859,858

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Difference Between Expected and Actual			
Experience	\$7,343	\$1,669	\$9,012
Changes of Assumptions	859,321	0	859,321
Net Difference Between Projected and			
Actual Earnings on Pension Plan Investments	806,828	573,603	1,380,431
Changes in Proportion and Differences			
Between City Contributions and the			
Proportionate Share of Contributions	36,560	14,232	50,792
City Contributions Subsequent to the			
Measurement Date	<u>407,544</u>	<u>440,179</u>	<u>847,723</u>
Total Deferred Outflows of Resources	<u>\$2,117,596</u>	<u>\$1,029,683</u>	<u>\$3,147,279</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
<b>Deferred Inflows of Resources</b>			
Difference Between Expected and Actual Experience	\$32,244	\$13,581	\$45,825
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	6,455	254,370	260,825
Total Deferred Inflows of Resources	<u>\$38,699</u>	<u>\$267,951</u>	<u>\$306,650</u>

\$847,723 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Year Ending December 31,			
2018	\$705,210	\$171,194	\$876,404
2019	703,249	171,194	874,443
2020	286,544	119,213	405,757
2021	(23,650)	(85,572)	(109,222)
2022	0	(49,524)	(49,524)
Thereafter	0	(4,952)	(4,952)
Total	<u>\$1,671,353</u>	<u>\$321,553</u>	<u>\$1,992,906</u>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with GASB Statement No. 67. In 2016, the OPERS actuarial consultants conducted an experience study for the period 2011 through 2015 comparing assumptions to actual results. The experience study incorporates both a historical review and forward looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions with the most notable being a reduction in the actuarially assumed rate of return from 8 percent to 7.5 percent for the defined benefit investments.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

Key methods and assumptions used in the latest actuarial valuations, reflecting experience study results, prepared as of December 31, 2016, compared to December 31, 2015, are presented below.

	December 31, 2016	December 31, 2015
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age

For 2016, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 mortality improvements scale to the above described tables.

For 2015, mortality rates were based on the RP-2000 Mortality Table projected twenty years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage adjusted for inflation.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio, and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016, and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the traditional pension plan, the defined benefit component of the combined plan, and the annuitized accounts of the member-directed plan. The Defined Benefit portfolio historically included the assets of the member-directed retiree medical accounts funded through the VEBA Trust; however, the VEBA Trust was closed as of June 30, 2016, and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plan. The table below displays the board approved asset allocation policy for 2016 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total pension liability for 2016 was 7.5 percent. The discount rate for 2015 was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate Share of the Net Pension Liability	\$8,276,817	\$5,417,745	\$3,035,215

**Actuarial Assumptions - OPF**

OPF's total pension liability as of December 31, 2016, is based on the results of an actuarial valuation date of January 1, 2016, and rolled forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67 as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements, and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of January 1, 2016, are presented below.

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	entry age normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent plus productivity increase rate of .5 percent
Cost of Living Adjustments	3 percent simple; 2.6 percent simple for increases based on lesser of the increase in CPI and 3 percent

Mortality rates are based on the RP-2000 Combined Table, age adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

The long-term expected rate of return on pension plan investments was determined using a building block approach and assumes a time horizon as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2016, are summarized below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Cash and Cash Equivalents	0.00 %	0.00 %
Domestic Equities	16.00	5.21
Non-U.S. Equities	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	<u>120.00 %</u>	

Note: assumptions are geometric

\* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure which reduces overall total portfolio risk without sacrificing return and creating a more risk balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the total portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and, to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.25 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent) or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's Proportionate Share of the Net Pension Liability	\$7,856,113	\$5,898,508	\$4,239,410

**Changes Between Measurement Date and Report Date**

In October 2017, the OPF Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

**NOTE 16 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit postemployment health care trust which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a health reimbursement arrangement to qualifying benefit recipients of both the traditional and combined pension plans. This trust is also used to fund health care for member-directed plan participants in the form of a retiree medical account (RMA). At retirement or refund, member-directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined pension plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 45. See OPERS' CAFR referenced below for additional information.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 16 - POSTEMPLOYMENT BENEFITS** (continued)

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board 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 visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed 14 percent of earnable salary and public safety and law enforcement employers contributed 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund the health care plans. The portion of the employer contribution allocated to health care for members of both the traditional and combined plans was 1 percent for 2017. As recommended by OPERS' actuary, the portion of the employer contribution allocated to health care beginning January 1, 2018, decreased to 0 percent for both plans.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. The employer contribution as a percentage of covered payroll deposited into the RMA for participants of the member-directed plan was 4 percent for 2017.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing multiple-employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$31,350, \$61,655, and \$59,679, respectively. For 2017, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

**B. Police and Fire Pension Fund**

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

OPF provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OPF meets the definition of an other postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 45.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 16 - POSTEMPLOYMENT BENEFITS** (continued)

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

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the OPF website at [www.op-f.org](http://www.op-f.org).

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as a percentage of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF for the years ended December 31, 2017, 2016, and 2015, was \$450,489, \$435,123, and \$433,126, respectively, of which \$10,310, \$9,994, and \$9,903 was allocated to the health care plan. For 2017, 89 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2016 and 2015.

**NOTE 17 - OTHER EMPLOYEE BENEFITS**

**A. Health Care Benefits**

The City offers employee health benefits through Medical Mutual of Ohio. The employees share the cost of the monthly premium with the City. The premium varies with employee depending on the terms of the union contract.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 17 - OTHER EMPLOYEE BENEFITS** (continued)

**B. 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. Employees who are part of the Ohio Patrolmen's Benevolent Association and the Fraternal Order of Police, who were hired before January 1, 2014, and who have three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave. Members of these two unions who were hired after January 1, 2014, and have five or more years of full-time service with the City are entitled to receive one-half of the value of their accumulated unused sick leave. Members of the International Association of Firefighters with five or more years of full-time service with the City are entitled to receive between 25 percent, 33 percent, and 66 percent of the value of their accumulated unused sick leave, dependent on the amount of accumulated hours. All other employees having three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave regardless of date of hire.

**NOTE 18 - NOTES PAYABLE**

The City's note transactions for the year ended December 31, 2017, were as follows:

	<u>Interest Rate</u>	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2017</u>
<u>Governmental Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
General Fund					
Fire Truck	1.40%	\$70,000	\$0	\$70,000	\$0
Fire Truck	1.90	0	70,000	0	70,000
EMS Vehicle	1.90	0	48,000	0	48,000
Special Revenue Fund					
Street Truck	1.40	13,000	0	13,000	0
Street Truck	1.90	0	13,000	0	13,000
Portland Way North	1.90	0	9,810	0	9,810
Total Governmental Activities		<u>\$83,000</u>	<u>\$140,810</u>	<u>\$83,000</u>	<u>\$140,810</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 18 - NOTES PAYABLE** (continued)

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Fund					
Screw Pump	1.40%	\$580,000	\$0	\$580,000	\$0
Screw Pump	1.90	0	522,000	0	522,000
Portland Way North	1.90	0	94,000	0	94,000
State Route 61 Lift Station	1.90	0	300,000	0	300,000
Electric Distribution System	1.90	0	1,575,000	0	1,575,000
Utility Truck	1.40	31,200	0	31,200	0
Utility Truck	1.90	0	23,400	0	23,400
Total Business-Type Activities		<u>\$611,200</u>	<u>\$2,514,400</u>	<u>\$611,200</u>	<u>\$2,514,400</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 bond anticipation notes in the General Fund, in the amount of \$118,000, were issued on July 25, 2017; \$70,000 to retire notes previously issued to acquire a fire truck and \$48,000 to acquire an EMS vehicle. The notes mature on July 25, 2018.

The bond anticipation notes in the Street Maintenance Fund, in the amount of \$13,000, were issued on July 25, 2017, to retire notes previously issued to acquire two trucks. The notes mature on July 25, 2018.

The bond anticipation notes in the State Highway special revenue fund, in the amount of 9,810, were issued on July 25, 2017, for the Portland Way North reconstruction. The notes will mature on July 25, 2018.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$916,000, were issued on July 25, 2017; \$522,000 to retire notes previously issued to purchase a screw pump, \$94,000 for the Portland Way North Reconstruction, and \$300,000 for the State Route 61 lift station. The notes mature on July 25, 2018. As of December 31, 2017, \$284,653 of the proceeds had not been spent. Of the \$916,000, \$522,000 was not capitalized.

The bond anticipation notes in the Electric enterprise fund, in the amount of \$1,575,000, were issued on July 25, 2017, to upgrade the electric distribution system. The notes mature on July 25, 2018. As of December 31, 2017, \$1,001,975 of the proceeds had not been spent.

The bond anticipation notes in the Storm Water enterprise fund, in the amount of \$23,400, were issued on July 25, 2017, to retire notes previously issued to acquire a utility truck. The notes mature on July 25, 2018.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 19 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2017, was as follows:

	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bond						
Anticipation Notes						
Fire Truck	1.40%	\$555,000	\$0	\$555,000	\$0	\$0
Street Truck	1.40	39,000	0	39,000	0	0
Fire Truck	1.90	0	485,000	0	485,000	485,000
Street Truck	1.90	0	26,000	0	26,000	26,000
EMS Vehicle	1.90	0	192,000	0	192,000	192,000
Portland Way North	1.90	0	186,390	0	186,390	186,390
Total General Obligation Bond						
Anticipation Notes		594,000	889,390	594,000	889,390	889,390
Net Pension Liability						
Ohio Public Employees						
Retirement System		1,699,724	738,264	0	2,437,988	0
Ohio Police and Fire Pension		6,353,043	0	454,535	5,898,508	0
Total Net Pension Liability		8,052,767	738,264	454,535	8,336,496	0
OPWC Loans						
#CP02L	0.00	39,260	0	13,087	26,173	13,087
Portland Way South	0.00	326,350	0	8,159	318,191	16,318
Police Liability	5.00	21,346	0	782	20,564	815
Fire Liability	5.00	80,913	0	2,963	77,950	3,090
Capital Loan Payable (Fire Truck)	2.99	225,243	0	34,837	190,406	35,878
Compensated Absences Payable		720,575	7,221	49,155	678,641	145,300
Total Governmental Activities		<u>\$10,060,454</u>	<u>\$1,634,875</u>	<u>\$1,157,518</u>	<u>\$10,537,811</u>	<u>\$1,103,878</u>
<u>Business-Type Activities</u>						
General Obligation Bonds						
2007 Electric Improvement						
(Original Amount \$8,952,000)	5.25%	\$4,589,000	\$0	\$638,000	\$3,951,000	\$671,000
2011 Electric Improvement						
(Original Amount \$2,500,000)	2.15	1,250,000	0	250,000	1,000,000	250,000
Total General Obligation Bonds		5,839,000	0	888,000	4,951,000	921,000
Net Pension Liability						
Ohio Public Employees						
Retirement System		2,445,946	533,811	0	2,979,757	0
OPWC Loans						
Railroad Street Waterline						
(Original Amount \$71,104)	0.00	19,555	0	3,555	16,000	3,555
West End Waterline						
(Original Amount \$140,000)	0.00	56,000	0	7,000	49,000	7,000
North Market Storm Sewer						
(Original Amount \$94,092)	0.00	47,047	0	18,818	28,229	18,818
Southeast Storm Sewer						
(Original Amount \$693,209)	0.00	681,656	0	23,107	658,549	23,107
Total OPWC Loans		804,258	0	52,480	751,778	52,480

(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 19 - LONG-TERM OBLIGATIONS** (continued)

<u>Business-Type Activities</u> (continued)	Interest Rate	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Due Within One Year
<u>OWDA Loans</u>						
#2735 Raw Water Line (Original Amount \$480,881)	2.00%	\$116,096	\$0	\$22,309	\$93,787	\$22,755
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	2,317,177	0	128,900	2,188,277	131,491
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	487,865	0	52,909	434,956	55,037
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,311,332	0	47,299	1,264,033	49,200
#4090 Cheshire (Original Amount \$1,232,112)	3.98	936,501	0	33,780	902,721	35,136
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	1,686,209	0	60,821	1,625,388	63,265
#4732 WWTP Bio-Solids (Original Amount \$2,762,322)	3.20	1,946,225	0	120,401	1,825,824	124,676
#4873 Water Tank Rehabilitation (Original Amount \$679,864)	4.61	478,867	0	30,677	448,190	32,107
#6273 WWTP Influent Upgrade (Original Amount \$655,098)	2.57	531,661	7,237	17,662	521,236	28,885
Total OWDA Loans		<u>9,811,933</u>	<u>7,237</u>	<u>514,758</u>	<u>9,304,412</u>	<u>542,552</u>
AMP Ohio Payable - JV 2		226,602	0	216,277	10,325	10,325
AMP Ohio Payable		687,371	0	82,672	604,699	57,798
Compensated Absences Payable		498,435	53,465	135	551,765	168,479
Total Business-Type Activities		<u>\$20,313,545</u>	<u>\$594,513</u>	<u>\$1,754,322</u>	<u>\$19,153,736</u>	<u>\$1,752,634</u>

General Obligation Bond Anticipation Notes

On July 25, 2017, the City issued \$889,390 in bond anticipation notes; \$511,000 to retire notes previously issued to acquire a fire truck and a street truck, \$192,000 to acquire an EMS vehicle, and \$186,390 for the Portland Way North reconstruction. The notes mature on July 25, 2018.

2007 Electric 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, 2017, all of the proceeds have been spent.

2011 Electric Improvement General Obligation Bonds

On October 27, 2011, the City issued \$2,500,000 in unvoted general obligation bonds to improve the City's electric distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on December 1, 2021. As of December 31, 2017, all of the proceeds have been spent.

Net Pension Liability

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund, the Police and Fire Levy, Street Maintenance, Recreation, Airport, Police Pension, and Fire Pension special revenue funds, and the Water, Sewer, Electric, and Storm Water enterprise funds.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 19 - LONG-TERM OBLIGATIONS** (continued)

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, Sewer, and Storm Water 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 \$11,862,195. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$406,327 and \$356,243, respectively. Total net revenue for the Water enterprise fund was \$233,297. The Sewer enterprise fund had a net loss.

Police and Fire 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 Loan Payable - On November 15, 2012, the City entered into a loan for the purchase of a new fire truck, in the amount of \$360,000. The loan has an interest rate of 2.99 percent. The City is paying the loan in equal annual payments over a ten year period with final maturity on April 23, 2022. The loan is being repaid from resources of the General Fund.

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.

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 on 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 remaining to be paid on the bonds is \$10,325. Principal paid during 2017 was \$216,277. Total net revenue for the Electric enterprise fund was \$527,715.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 19 - LONG-TERM OBLIGATIONS** (continued)

AMP Ohio Payable

The City of Galion is a member of American Municipal Power (AMP) and a participant in the American Municipal Power Generating Station Project (AMPGS). This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share of the project was 8,000 kW of a total capacity of 771,281 kW, giving the City a 1.04 percent share of the project.

The AMPGS project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. As a result of a March 31, 2014, legal ruling, the AMP Board of Trustees on April 15, 2014, and the AMPGS participants on April 16, 2014, approved the collection of the impaired costs and provided the participants with an estimate of their liability.

The City's estimated share of the impaired costs at March 31, 2014, was \$1,148,904. The City received a credit of \$361,799 related to the AMPGS costs deemed to have future benefit for the project participants. Additional costs have been incurred for interest and legal fees of \$21,767 and payments were made of \$204,173 leaving a net impaired cost estimate of \$604,699. The City is reporting a payable to AMP in its business-type activities and in its Electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line of credit interest and legal fees) or amounts received related to the project may result in a future liability to the City. These amounts will be recorded as they become estimable.

The City is paying its liability to AMP by making monthly payments over a fifteen year period. The liability should be paid in full during 2028.

The City's legal debt margin was \$9,700,445 at December 31, 2017.

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

	Governmental Activities				
	OPWC	Police and Fire Pension		Capital Loan	
	Loans	Principal	Interest	Principal	Interest
2018	\$29,405	\$3,905	\$4,146	\$35,878	\$5,694
2019	29,403	4,074	3,977	36,951	4,622
2020	16,318	4,248	3,803	38,056	3,517
2021	16,317	4,430	3,621	39,194	2,379
2022	16,318	4,620	3,431	40,327	1,246
2023-2027	81,587	26,258	13,997	0	0
2028-2032	81,588	32,403	7,852	0	0
2033-2037	73,428	18,576	1,184	0	0
	\$344,364	\$98,514	\$42,011	\$190,406	\$17,458

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 19 - 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
2018	\$921,000	\$214,524	\$52,480
2019	958,000	173,201	43,073
2020	995,000	129,920	33,662
2021	1,036,000	84,632	33,662
2022	827,000	38,548	31,887
2023-2027	214,000	2,809	129,535
2028-2032	0	0	115,535
2033-2037	0	0	115,535
2038-2042	0	0	115,535
2043-2046	0	0	80,874
	<u>\$4,951,000</u>	<u>\$643,634</u>	<u>\$751,778</u>

Year	OWDA Loans		AMP Ohio Payable
	Principal	Interest	Principal
2018	\$542,552	\$295,900	\$68,123
2019	560,468	278,839	57,798
2020	579,018	261,173	57,798
2021	598,231	242,877	57,798
2022	593,495	223,938	57,798
2023-2027	3,057,690	829,676	288,990
2028-2032	2,540,655	366,451	26,719
2033-2035	832,303	58,929	0
	<u>\$9,304,412</u>	<u>\$2,557,783</u>	<u>\$615,024</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

**NOTE 20 - FUND BALANCE**

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

<u>Fund Balance</u>	<u>General</u>	<u>Police and Fire Levy</u>	<u>Other Governmental Funds</u>
Nonspendable for:			
Materials and Supplies Inventory	\$0	\$0	\$64,470
Prepaid Items	25,282	0	7,915
Unclaimed Monies	18,876	0	0
Total Nonspendable	<u>44,158</u>	<u>0</u>	<u>72,385</u>
Restricted for:			
Airport Improvements	0	0	27,115
Depot Improvements	0	0	1,248
Drug Enforcement	0	0	62,460
Economic Development and Rehabilitation	0	0	1,108,100
Park Improvements	0	0	203,009
Park Operations	0	0	61,329
Police and Fire Operations	0	477,681	17,585
Street Construction and Maintenance	0	0	251,309
Total Restricted	<u>0</u>	<u>477,681</u>	<u>1,732,155</u>
Assigned for:			
Projected Budget Shortage	260,454	0	0
Unpaid Obligations	154,534	0	0
Total Assigned	<u>414,988</u>	<u>0</u>	<u>0</u>
Unassigned (Deficit)	<u>5,499,014</u>	<u>0</u>	<u>(207,811)</u>
Total Fund Balance	<u><u>\$5,958,160</u></u>	<u><u>\$477,681</u></u>	<u><u>\$1,596,729</u></u>

**NOTE 21 - INTERFUND TRANSFERS**

During 2017, the General Fund made transfers to the other governmental funds, in the amount of \$975,586, to subsidize various programs in other funds.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$27,286 and \$44,520, respectively, to move special assessment revenue related to Water and Sewer funds.

The Water enterprise fund made transfers to other governmental funds, in the amount of \$27,439, to move receipts as debt payments came due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$44,770, to move receipts as debt payments came due.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 22 - 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, two are appointed by City Council and three members are named by the board. 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's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2017, the Foundation's investments consisted of the following:

	Fair Value
Equities	\$6,178,346
Fixed Income	3,078,099
Real Assets	161,386
Alternative Income	1,062,066
Other Assets	74,120
Cash Equivalents	337,432
	<u>\$10,891,449</u>

**NOTE 23 - PUBLIC ENTITY SHARED RISK POOL**

The Public Entities Pool of Ohio (Pool) is a public entity shared risk pool which provides various risk management services to its members. The Pool is governed by a seven member board of directors; six are member representatives or elected officials and one is a representative of the pool administrator, American Risk Pooling Consultants, Inc. Each member has one vote on all issues addressed by the Board of Directors.

Participation in the Pool is by written application subject to the terms of the pool agreement. Members must continue membership for a full year and may withdraw from the Pool by giving a sixty day written notice prior to their annual anniversary. Financial information can be obtained from the Public Entities Pool of Ohio, 6797 North High Street, Suite 131, Worthington, Ohio 43085.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 24 - JOINT VENTURES**

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

The City is a participant, with twenty-one 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 \$1,766 to the joint venture in 2017 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 \$20,523 at December 31, 2017. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**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, 2017, the City met its debt coverage obligation.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 24 - JOINT VENTURES** (continued)

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. During 2011, AMP-Ohio retired the remaining balance of the bonds; however, the City is still responsible for paying the remainder of their obligation for this debt to AMP-Ohio. The City's net obligation for these bonds at December 31, 2017, was \$10,325 (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 \$430,852 at December 31, 2017. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**NOTE 25 - 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.

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, 409 Kroft Street, Galion, Ohio 44833.

**NOTE 26 - 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 the Mayor. 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 N. Market Street, Galion, Ohio 44833.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2017**

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**NOTE 27 - 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 Mayor, 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, April 2008, December 2009, December 2010, December 2011, December 2012, December 2013, December 2014, December 2015, December 2016, and December 2017.

The more significant steps taken by the City to alleviate the fiscal emergency conditions were initial staff reductions and 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). On April 26, 2018, the financial planning and supervision commission passed a resolution requesting the Auditor of State to determine whether the City has corrected all of the fiscal emergency conditions, whether the City has met the objectives of the financial plan, and whether the commission and its functions should be terminated. The Auditor of State is in the process of conducting this evaluation.

**NOTE 28 - 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, 2017, to December 31, 2017, 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  
 Required Supplementary Information  
 Schedule of the City's Proportionate Share of the Net Pension Liability  
 Ohio Public Employees Retirement System - Traditional  
 Last Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.02385800%	0.02393400%	0.02308100%	0.02308100%
City's Proportionate Share of the Net Pension Liability	\$5,417,745	\$4,145,670	\$2,783,827	\$2,720,949
City's Covered Payroll	\$3,082,733	\$2,983,957	\$2,829,850	\$2,549,462
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	175.74%	138.93%	98.37%	106.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Galion  
 Required Supplementary Information  
 Schedule of the City's Proportionate Share of the Net Pension Liability  
 Ohio Police and Fire Pension Fund  
 Last Four Years (1)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.09312600%	0.09875600%	0.09833180%	0.09833180%
City's Proportionate Share of the Net Pension Liability	\$5,898,508	\$6,353,043	\$5,093,998	\$4,789,067
City's Covered Payroll	\$1,998,757	\$1,980,560	\$1,925,161	\$1,819,529
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	295.11%	320.77%	264.60%	263.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Galion  
 Required Supplementary Information  
 Schedule of the City's Contributions  
 Ohio Public Employees Retirement System - Traditional Plan  
 Last Five Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$407,544	\$369,928	\$358,075	\$339,582
Contributions in Relation to the Contractually Required Contribution	<u>(407,544)</u>	<u>(369,928)</u>	<u>(358,075)</u>	<u>(339,582)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$3,134,954	\$3,082,733	\$2,983,957	\$2,829,850
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%

(1) Information prior to 2013 is not available.

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2013

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\$331,430

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(331,430)

---

\$0

\$2,549,462

13.00%

City of Galion  
Required Supplementary Information  
Schedule of the City's Contributions  
Ohio Police and Fire Pension Fund  
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$440,179	\$425,129	\$423,223	\$411,512
Contributions in Relation to the Contractually Required Contribution	<u>(440,179)</u>	<u>(425,129)</u>	<u>(423,223)</u>	<u>(411,512)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,062,044	\$1,998,757	\$1,980,560	\$1,925,161
Contributions as a Percentage of Covered Payroll	21.35%	21.27%	21.37%	21.38%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$332,016	\$246,879	\$259,288	\$241,626	\$235,803	\$221,306
<u>(332,016)</u>	<u>(246,879)</u>	<u>(259,288)</u>	<u>(241,626)</u>	<u>(235,803)</u>	<u>(221,306)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,819,529	\$1,628,314	\$1,705,198	\$1,598,142	\$1,561,527	\$1,461,063
18.25%	15.16%	15.21%	15.12%	15.10%	15.15%

**City of Galion**  
**Notes to the Required Supplementary Information**  
**For the Year Ended December 31, 2017**

**Changes in Assumptions - OPERS**

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below.

	<u>December 31, 2017</u>	<u>December 31, 2016 and Prior</u>
Wage Inflation	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.05 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013	3 percent simple	3 percent simple
Post-January 7, 2013	3 percent simple through 2018, then 2.15 percent simple	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	7.5 percent	8 percent
Actuarial Cost Method	individual entry age	individual entry age

Amounts reported for 2017 use mortality rates based on the RP-2014 Healthy Annuitant Mortality Table. For males, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base of 2006 and then established the base year as 2015. For females, healthy annuitant mortality tables were used adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality Table adjusted for mortality improvements back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 mortality improvements scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected twenty years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.



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

June 29, 2018

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2018, 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 Section 118.05(G), the Auditor of State served as the City's financial supervisor.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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***Internal Control Over Financial Reporting (Continued)***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted a certain matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 29, 2018.

***Entity's Response to Findings***

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

***Purpose of this Report***

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



**Perry & Associates**  
Certified Public Accountants, A.C.  
Marietta, Ohio

CITY OF GALION  
CRAWFORD COUNTY

SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2017

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

FINDING NUMBER 2017-001

**Material Weakness**

**GAAP Reporting**

The City prepares their financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The City over reported depreciation expense as of December 31, 2017 in the Storm Water Fund. The financial statements have been updated to reflect this adjustment.

We recommend the City perform a review of the financial statements as well as a comparison to prior financial statements to ensure variances are reasonable and depreciation is recorded correctly.

**Management's Response** – The error was due to a formula error in the compilation. This has been corrected and resubmitted.

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# Dave Yost • 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  
AUGUST, 28 2018