

CITY OF GALION, OHIO
CRAWFORD COUNTY

AUDITED GENERAL PURPOSE FINANCIAL
STATEMENTS AND
AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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City Manager
Members of 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 Guillan & Company, for the audit period January 1, 2001 through December 31, 2001. 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 black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

October 9, 2002

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CITY OF GALION, OHIO
CRAWFORD COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Elected Officials	1
Administrative Personnel	2
Index of Funds	3
Independent Auditors' Report	4
Combined Balance Sheet - All Fund Types and Account Groups	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Expendable Trust Funds	7
Combined Statement of Revenues, Expenditures And Changes in Fund Balances - Budget And Actual (Budgetary Basis) - All Governmental And Expendable Trust Funds	9
Combined Statement of Revenues, Expenses and Changes In Retained Earnings - All Proprietary Funds	13
Combined Statement of Cash Flows - Proprietary Funds	14
Notes to the General Purpose Financial Statements	16
Status of Prior Audit Citations and Recommendations	47
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	48
Schedule of Findings and Questioned Costs	50
General Comments	52

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CITY OF GALION
CRAWFORD COUNTY

ELECTED OFFICIALS
AS OF DECEMBER 31, 2001

<u>Elected Officials/Title</u>	<u>Term of Office</u>
Sharon Barnes Council President	01/01/00 - 12/31/03
Mohsen Ressallat Council Member	01/01/98 - 12/31/01
Dennis Little Council Member	01/01/00 - 12/31/03
Pauline Eaton Council Member	01/01/98 - 12/31/01
Don Diosi Council Member	01/01/98 - 12/31/01
Ken Swain Council Member	01/01/98 - 12/31/01
Joe Kleinknecht Council Vice-President	01/01/98 - 12/31/01

CITY OF GALION
CRAWFORD COUNTY

ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 2001

<u>Personnel</u>	<u>Title</u>
Phil Honsey	City Manager
Bill Bauer	Director of Finance
Dean Cobern	Electrical Distribution Superintendent
George Ayers	Water/Sewer Operations Superintendent
Leslie Spring	Street Superintendent
William Nedolast	Building Inspector
Rick Shifley	Police Chief
Robert Keyes	Fire Chief
Garland Gledhill	Clerk of Council
Reese F. Mills	Law Director
David Keller	Assistant Law Director

Surety

Amount

Period Covered

Western Surety Company

\$50,000

07/01/01 - 07/01/04

CITY OF GALION, OHIO
CRAWFORD COUNTY

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Class:

General Fund

Special Revenue Fund Class:

Street Construction, Maintenance and Repair Fund

State Highway Fund

Street Improvement Fund

Airport Fund

Community Development Block Grant Fund

Community Development Block Grant Escrow Fund

Police Pension Fund

Fire Pension Fund

Debt Service Fund Class:

Bond Retirement Fund

PROPRIETARY FUND TYPES:

Enterprise Fund Class:

Water Operating Fund

Water Improvement Fund

Sewer Operating Fund

Sewer Improvement Fund

Electric Operating Fund

Electric Improvement Fund

Utility Deposit Fund

Internal Service Fund Class:

Self Insurance Fund

FIDUCIARY FUND TYPES:

Expendable Trust:

Egbert M. Freese Foundation

ACCOUNT GROUPS:

General Fixed Assets

General Long-Term Obligations

Guillan & Company

Independent Auditor's Report

City Manager
Members of City Council
City of Galion, Ohio

We have audited the accompanying general-purpose financial statements of the City of Galion, Ohio, as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Galion, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

September 9, 2002

Guillan & Company

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2001

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
<u>Assets and Other Debits</u>			
Equity in pooled cash & cash equivalents	\$ 1,051,188	\$ 234,037	\$ 9,798
Cash & cash equivalents in segregated accounts	900	-	-
Receivables (net of allowance for uncollectible):			
Taxes	939,084	53,000	100,000
Accounts	3,169	-	-
Accrued interest	271	-	-
Due from other funds	961,615	1,041,764	-
Due from other governments	173,018	73,212	-
Loans receivable	-	197,575	-
Prepaid expenditures	14,901	-	-
Inventory	38,904	36,750	-
Unamortized debt issue costs	-	-	-
Investment in joint venture	-	-	-
Fixed assets			
(net of accumulated depreciation)	-	-	-
Restricted assets:			
Cash and cash equivalents with fiscal agents	-	-	-
Investments	-	-	-
Amount available in debt service fund	-	-	-
Amount available to provide for retirement of general long-term debt	-	-	-
Total Assets and Other Debits	\$ 3,183,050	\$ 1,636,338	\$ 109,798

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

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMO- RANDUM ONLY)
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
\$ 222,001	\$ 8,493	\$ -	\$ -	\$ -	\$ 1,525,517
1,200	-	-	-	-	2,100
-	-	-	-	-	1,092,084
1,416,970	-	-	-	-	1,420,139
-	-	32,545	-	-	32,816
887,716	96,854	-	-	-	2,987,949
-	-	-	-	-	246,230
-	-	-	-	-	197,575
-	-	-	-	-	14,901
1,111,068	-	-	-	-	1,186,722
90,872	-	-	-	-	90,872
2,359,102	-	-	-	-	2,359,102
25,307,669	-	-	8,835,850	-	34,143,519
219,292	-	239,916	-	-	459,208
-	-	8,769,353	-	-	8,769,353
-	-	-	-	9,798	9,798
-	-	-	-	1,402,301	1,402,301
\$ 31,615,890	\$ 105,347	\$ 9,041,814	\$ 8,835,850	\$ 1,412,099	\$ 55,940,186

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2001
(Continued)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
<u>Liabilities, Equity and Other Credits</u>			
<u>Liabilities</u>			
Accounts payable	\$ 183,100	\$ 18,167	\$ -
Accrued interest payable	8,446	11,924	-
Accrued wages and benefits	126,722	19,496	-
Due to other funds	48,670	2,900,804	-
Due to other governments	23,616	4,494	-
Deferred revenue	319,165	53,000	100,000
Claims payables	-	-	-
Retainage Payable	-	-	-
Deposits Held and Due to Others	-	-	-
General obligation note payable	425,000	600,000	-
Bonds payable	-	-	-
Premium on bonds payable	-	-	-
Capital leases payable	-	-	-
Fire/Police pension accrued liability	-	-	-
EPA Settlements Payable	-	-	-
Compensated absences	72,090	22,559	-
	1,206,809	3,630,444	100,000
Total Liabilities	1,206,809	3,630,444	100,000
<u>Equity and Other Credits</u>			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings	-	-	-
Fund balances:			
Reserved for encumbrances	199,446	17,345	-
Reserved for inventory	38,904	36,750	-
Reserved for prepaid expenditures	14,901	-	-
Reserved for debt service	-	-	9,798
Reserved for loans receivable	-	197,575	-
Unreserved - undesignated	1,722,990	(2,245,776)	-
	1,976,241	(1,994,106)	9,798
Total Equity and Other Credits	1,976,241	(1,994,106)	9,798
Total Liabilities, Equity and Other Credits	\$ 3,183,050	\$ 1,636,338	\$ 109,798

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

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	(MEMO-RANDUM ONLY)
\$ 1,143,790	\$ -	\$ -	\$ -	\$ -	\$ 1,345,057
28,781	-	-	-	-	49,151
70,734	-	-	-	-	216,952
38,475	-	-	-	-	2,987,949
90,364	-	-	-	170,442	288,916
-	-	-	-	-	472,165
-	105,347	-	-	-	105,347
100,433	-	-	-	-	100,433
191,194	-	-	-	-	191,194
8,132,005	-	-	-	87,176	9,244,181
3,069,124	-	-	-	505,000	3,574,124
45,556	-	-	-	-	45,556
165,238	-	-	-	-	165,238
-	-	-	-	143,049	143,049
-	-	-	-	109,040	109,040
352,157	-	-	-	397,392	844,198
13,427,851	105,347	-	-	1,412,099	19,882,550
-	-	-	8,835,850	-	8,835,850
7,775,544	-	-	-	-	7,775,544
10,412,495	-	-	-	-	10,412,495
-	-	-	-	-	216,791
-	-	-	-	-	75,654
-	-	-	-	-	14,901
-	-	-	-	-	9,798
-	-	-	-	-	197,575
-	-	9,041,814	-	-	8,519,028
18,188,039	-	9,041,814	8,835,850	-	36,057,636
\$ 31,615,890	\$ 105,347	\$ 9,041,814	\$ 8,835,850	\$ 1,412,099	\$ 55,940,186

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>
<u>REVENUES</u>			
Local taxes	\$ 3,472,589	\$ 70,470	\$ 50,759
Intergovernmental revenues	667,663	705,800	11,624
Charges for services	2,396,035	-	-
Fines, licenses, permits	85,847	-	-
Interest Income	21,669	37,401	-
Loss on Investments	-	-	-
Rent	2,500	61,304	-
Other	317,274	41,314	-
TOTAL REVENUES	6,963,577	916,289	62,383
<u>EXPENDITURES</u>			
<u>Current:</u>			
Security of persons and property	2,697,775	456,569	-
Public health services	230,107	-	-
Leisure time activities	290,502	-	-
Community environment	-	95,579	-
Transportation	-	1,397,834	-
General government	2,627,891	1,540	2,181
Debt service	18,242	45,218	76,438
TOTAL EXPENDITURES	\$ 5,864,517	\$ 1,996,740	\$ 78,619

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

FIDUCIARY		TOTALS	
EXPENDABLE	TRUST	(MEMORANDUM	ONLY)
\$	-	\$	3,593,818
	-		1,385,087
	-		2,396,035
	-		85,847
	-		59,070
	(286,248)		(286,248)
	-		63,804
	-		358,588
	(286,248)		7,656,001
	-		3,154,344
	-		230,107
	-		290,502
	371,683		467,262
	-		1,397,834
	-		2,631,612
	-		139,898
\$	371,683	\$	8,311,559

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	GOVERNMENTAL FUND TYPES		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 1,099,060	\$ (1,080,451)	\$ (16,236)
Other financing sources(uses):			
Other financing sources	248,359	-	-
TOTAL OTHER FINANCING SOURCES/(USES)	248,359	-	-
(Deficit) of revenues and other financing sources (under) expenditures and other financing uses	1,347,419	(1,080,451)	(16,236)
Fund Balances - January 1, 2001	633,315	(917,484)	26,034
Increase (decrease) in reserve for inventory	(4,493)	3,829	-
Fund Balances - December 31, 2001	\$ 1,976,241	\$ (1,994,106)	\$ 9,798

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

FIDUCIARY FUND TYPES	TOTALS
EXPENDABLE TRUST	(MEMORANDUM ONLY)
<u>\$ (657,931)</u>	<u>\$ (655,558)</u>
-	248,359
-	248,359
(657,931)	(407,199)
9,699,745	9,441,610
-	(664)
<u>\$ 9,041,814</u>	<u>\$ 9,033,747</u>

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	GENERAL FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
<u>REVENUES</u>			
Local taxes	\$ 4,184,915	\$ 3,369,157	\$ (815,758)
Intergovernmental revenues	577,337	614,923	37,586
Charges for services	245,236	2,396,035	2,150,799
Fines, licenses, and permits	72,128	85,101	12,973
Miscellaneous	120,995	339,298	218,303
TOTAL REVENUES	5,200,611	6,804,514	1,603,903
<u>EXPENDITURES</u>			
<u>Current:</u>			
Security of persons and property	2,969,370	2,721,375	247,995
Public health services	371,831	231,886	139,945
Leisure time activities	1,199,964	307,400	892,564
Community environment	-	-	-
Transportation	-	-	-
General government	2,113,233	2,779,511	(666,278)
Debt service	129,474	129,474	-
TOTAL EXPENDITURES	\$ 6,783,872	\$ 6,169,646	\$ 614,226

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

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
\$ 142,652	\$ 70,470	\$ (72,182)	\$ 110,000	\$ 88,286	\$ (21,714)
1,053,464	822,560	(230,904)	15,000	11,624	(3,376)
-	-	-	-	-	-
-	-	-	-	-	-
230,562	102,626	(127,936)	-	-	-
1,426,678	995,656	(431,022)	125,000	99,910	(25,090)
500,000	456,569	43,431	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
652,950	95,579	557,371	-	-	-
1,648,793	1,431,948	216,845	-	-	-
-	1,540	(1,540)	-	2,181	(2,181)
699,160	718,532	(19,372)	438,027	438,965	(938)
\$ 3,500,903	\$ 2,704,168	\$ 796,735	\$ 438,027	\$ 441,146	\$ (3,119)

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

(Continued)

	GENERAL FUND		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (1,583,261)	\$ 634,868	\$ 2,218,129
<u>OTHER FINANCING SOURCES / (USES) :</u>			
Proceeds from sale of notes	100,000	100,000	-
Operating transfers in	-	-	-
Operating transfers out	(420,000)	-	420,000
Other financing sources	95,389	248,359	152,970
TOTAL OTHER FINANCING SOURCES / (USES)	(224,611)	348,359	572,970
(Deficit) of revenues and other financing sources (under) expenditures and other financing uses	(1,807,872)	983,227	2,791,099
Fund Balances - January 1, 2001	582,348	582,348	-
Prior Year Encumbrances Appropriated	226,489	226,489	-
Fund Balances - December 31, 2001	\$ (999,035)	\$ 1,792,064	\$ 2,791,099

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

SPECIAL REVENUE FUNDS			DEBT SERVICE FUND		
REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
\$ (2,074,225)	\$ (1,708,512)	\$ 365,713	\$ (313,027)	\$ (341,236)	\$ (28,209)
1,363,322	600,000	(763,322)	325,000	325,000	-
390,000	-	(390,000)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,753,322	600,000	(1,153,322)	325,000	325,000	-
(320,903)	(1,108,512)	(787,609)	11,973	(16,236)	(28,209)
(1,592,109)	(1,592,109)	-	26,034	26,034	-
15,800	15,800	-	-	-	-
\$ (1,897,212)	\$ (2,684,821)	\$ (787,609)	\$ 38,007	\$ 9,798	\$ (28,209)

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	TOTALS (MEMORANDUM ONLY)		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
<u>REVENUES</u>			
Local taxes	\$ 4,437,567	\$ 3,527,913	\$ (909,654)
Intergovernmental revenues	1,645,801	1,449,107	(196,694)
Charges for services	245,236	2,396,035	2,150,799
Fines, licenses, and permits	72,128	85,101	12,973
Miscellaneous	351,557	441,924	90,367
TOTAL REVENUES	6,752,289	7,900,080	1,147,791
<u>EXPENDITURES</u>			
<u>Current:</u>			
Security of persons and property	3,469,370	3,177,944	291,426
Public health services	371,831	231,886	139,945
Leisure time activities	1,199,964	307,400	892,564
Community environment	652,950	95,579	557,371
Transportation	1,648,793	1,431,948	216,845
General government	2,113,233	2,783,232	(669,999)
Debt service	1,266,661	1,286,971	(20,310)
TOTAL EXPENDITURES	\$ 10,722,802	\$ 9,314,960	\$ 1,407,842

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

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

(Continued)

	TOTALS (MEMORANDUM ONLY)		
	REVISED BUDGET	ACTUAL	VARIANCE FAVORABLE / (UNFAVORABLE)
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (3,970,513)	\$ (1,414,880)	\$ 2,555,633
<u>OTHER FINANCING SOURCES / (USES) :</u>			
Proceeds from sale of notes	1,788,322	1,025,000	(763,322)
Operating transfers in	390,000	-	(390,000)
Operating transfers out	(420,000)	-	420,000
Other financing sources	95,389	248,359	152,970
TOTAL OTHER FINANCING SOURCES / (USES)	1,853,711	1,273,359	(580,352)
(Deficit) of revenues and other financing sources (under) expenditures and other financing uses	(2,116,802)	(141,521)	1,975,281
Fund Balances - January 1, 2001	(983,727)	(983,727)	-
Prior Year Encumbrances Appropriated	242,289	242,289	-
Fund Balances - December 31, 2001	\$ (2,858,240)	\$ (882,959)	\$ 1,975,281

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

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANDUM ONLY)
<u>Operating Revenues</u>			
Charges for services	\$ 9,672,049	\$ 1,095,669	\$ 10,767,718
Total Operating Revenues	9,672,049	1,095,669	10,767,718
<u>Operating Expenses</u>			
Personal services	1,763,667	-	1,763,667
Materials and supplies	750,432	-	750,432
Contractual services	7,335,652	1,096,265	8,431,917
Depreciation	1,017,506	-	1,017,506
Employees fringe benefits	731,220	-	731,220
Total Operating Expenses	11,598,477	1,096,265	12,694,742
Operating Loss	(1,926,428)	(596)	(1,927,024)
<u>Nonoperating Revenues (Expenses)</u>			
Interest Income	-	596	596
Intergovernmental	266,531	-	266,531
Contributions	285,000	-	285,000
Interest Expense	(547,682)	-	(547,682)
Total Nonoperating Expenses	3,849	596	4,445
Net Loss	(1,922,579)	-	(1,922,579)
Depreciation on Fixed Assets Acquired by Contributed Capital	149,550	-	149,550
Retained Earnings - January 1, 2001	12,185,524	-	12,185,524
Retained Earnings - December 31, 2001	10,412,495	-	10,412,495
Contributed Capital - January 1, 2001	7,925,094	-	7,914,928
Depreciation on Fixed Assets Acquired by Contributed Capital	(149,550)	-	(149,550)
Contributed Capital - December 31, 2001	7,775,544	-	7,775,544
Fund Equity - December 31, 2001	\$ 18,188,039	\$ -	\$ 18,188,039

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

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANDUM ONLY)
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Operating Loss	\$ (1,926,428)	\$ (544)	\$ (1,926,972)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,017,506	-	1,017,506
<i><u>(Increase) decrease in Assets:</u></i>			
Receivables	44,307	-	44,307
Due from other governments	157,897	-	157,897
Inventory	27,976	-	27,976
Due from other funds	-	(36,590)	(36,590)
<i><u>Increase (decrease) in Liabilities:</u></i>			
Accounts payable	178,868	-	178,868
Claims payable	-	9,734	9,734
Retainage Payable	100,433	-	100,433
Accrued wages and benefits	6,125	-	6,125
Compensated absences payable	(32,429)	-	(32,429)
Due to other governments	(30,992)	-	(30,992)
Due to other funds	14,113	-	14,113
Deposits held and Due to Others	4,054	-	4,054
Total Adjustments	\$ (438,570)	\$ (27,400)	\$ (465,970)

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

CITY OF GALION, OHIO
CRAWFORD COUNTY

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001
(Continued)

	ENTERPRISE FUND	INTERNAL SERVICE FUND	TOTALS (MEMORANDUM ONLY)
Net cash provided by (used in) operating activities	\$ (438,570)	\$ (27,400)	\$ (465,970)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from debt issue	10,107,022	-	10,107,022
Principal paid on bonds and notes	(4,872,963)	-	(4,872,963)
Acquisition of capital assets	(3,195,610)	-	(3,195,610)
Investment in joint venture	(2,521,664)	-	(2,521,664)
Intergovernmental revenue	266,531	-	266,531
Contributions	285,000	-	285,000
Interest paid	(369,137)	-	(369,137)
Net cash used in capital and related financing activities	(300,821)	-	(300,821)
Cash Flows from Noncapital Financing Activities:			
Receipt from prior year interfund receivable	1,847,734	-	1,847,734
Payment made on prior year interfund loan	(683,632)	-	(683,632)
Loan made to other funds	(887,716)	-	(887,716)
Net cash provided by (used for) noncapital financing activities	276,386	-	276,386
Cash Flows from Investing Activities			
Interest received	-	544	544
Net (increase) in cash and cash equivalents	(463,005)	(26,856)	(489,861)
Cash and cash equivalents - January 1, 2001	905,498	35,349	940,847
Cash and cash equivalents - December 31, 2001	\$ 442,493	\$ 8,493	\$ 450,986

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

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

The reporting entity consists of the (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

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

The financial statements of the reporting entity allow the users to distinguish between the primary government and its component units. Most component units are included in the financial reporting entity by discrete presentation (one or more columns separate from the financial data of the primary government). Some component units are so intertwined with the primary government that they are reported in a manner similar to the balances and transactions of the primary government itself (this method is known as blending).

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

The Egbert M. Freese Foundation (the Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times shall be operated, exclusively for the benefit of, to perform the functions of, or carry out the purposes of the City of Galion. Upon the dissolution of

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

the Foundation, after payment of all the liabilities, all the assets of the Foundation shall be transferred to the City of Galion or its successor. It is intended that the Foundation shall allocate its funds in such a way that one-eighth of the income shall be used for college scholarships for worthy high school graduates in the City, with the remaining income to be used generally for the upkeep of improvements of City facilities or for any other purposes suitable to the memory of Egbert M. Freese. The Foundation will be recorded as an expendable trust fund on the City's financial statements since the nature and significance of the Foundations relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The blending method will be used. The Foundation does not issue separate financial statements.

Health care services are provided by the Galion Community Hospital. The Court system is provided through Crawford County. The Hospital and Court are separate entities whose financial statements are not included herein.

The Galion City School District, located within the boundaries of the City of Galion, is a political subdivision of the State of Ohio. The District operates under the direction of an elected school board, which exercises its own budgetary, taxing and fiscal management authority. Accordingly, the Galion City School District is not considered a part of the City and its operations will not be reflected in the City's financial statements.

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

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

B. BASIS OF PRESENTATION

Fund Accounting: The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

The various funds and account groups are reported by type columns in the financial statements. Amounts in the "total--memorandum only" columns in the financial statements represent a summation of the combined financial statement line items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different basis of accounting, both restricted and unrestricted amounts, interfund transactions that have not been eliminated, and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "total-memorandum only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the City. The City uses the following fund categories, fund types and account groups:

Governmental Funds

General Fund - to account 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 Charter of the City of Galion and/or the general laws of Ohio.

Special Revenue Funds - limited by state and/or federal law for the financing of certain governmental functions (other than expendable trusts, or for major capital projects) that is legally restricted to expenditures for specified purposes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

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

Internal Service Funds - to account for the financing of goods and services provided by one department to other departments of the City on a cost reimbursement basis.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

Fiduciary Funds

Expendable Trust Funds - to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These include Expendable Trust Funds.

Account Groups

General Fixed Assets Account Group - to account for fixed assets other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - to account for all long-term obligations of the City that are not a specific liability of any proprietary fund.

C. BASIS OF ACCOUNTING AND MEASUREMENT FOCUS

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and are reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The modified accrual basis of accounting is followed in the governmental fund types. Revenues are recognized when they become both measurable and available, while expenditures are generally recognized when the related fund liability is incurred, with the exception of unmatured interest on general long-term debt which is recognized when due.

In applying the susceptible to accrual concept under the modified accrual basis of accounting, the following major revenue sources are deemed both measurable and available: City income taxes, and corporate and individual estimated and withheld, utility billings unpaid and unbilled, and interest earnings. Property taxes are levied on January 1 of each year upon the assessed value at the preceding January 1, and the lien date. Property taxes are due in the calendar year levied. Property taxes are payable to the County Treasurer in two equal installments in January and July of the year levied and, if not paid, become delinquent after December 31, of the year levied. Accordingly, at December 31, 2001, only delinquent property taxes meet the susceptible to accrual criteria. Other revenues are recorded as revenue when received, as they are generally not measurable until actually received.

The accrual basis of accounting is followed in the proprietary fund types. Accordingly, revenues are recognized when they are earned and expenses, including depreciation, are recognized when they are incurred.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF ACCOUNTING (Continued)

Under the guidelines of Governmental Accounting Standards Board Statement No. 20, the City has elected to apply Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

Measurement Focus: The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary Funds are accounted for on a cost of services measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with this activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

D. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinances. The tax budget, certificate of estimated resources, and appropriation ordinance is prepared on the cash basis as required by the County Budget Commission. The certificate of estimated resources and the appropriation ordinances are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified. All changes in appropriated amounts require action by the City Council.

Tax Budget: A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

Estimated Resources: The County Budget Commission certifies its actions to the City by September 1. As part of this process, the City receives the official certificate of estimated resources, which states the projected cash receipts of each Fund. On or about January 1, this certificate is amended to include any unencumbered cash balances from the preceding year.

Appropriations: A temporary appropriation ordinance to control expenditures or expenses, as appropriate, may be passed on or about January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance may be amended during the year as new information becomes available provided that total appropriations do not exceed estimated resources, as certified.

At the end of the fiscal year, all unexpended and unencumbered balances of operating appropriations revert to the Fund from which the appropriation was initially made, where they become subject to future appropriation. The unexpended balances of capital projects appropriations continue until the project is completed at which time any remaining appropriation reverts to the Fund from which the appropriation was originally made.

Annual appropriation ordinances are adopted for all funds.

Budgeted Level of Expenditures: It is the City's policy to formally budget an appropriate those funds which derive their primary revenues from levied taxes, other governments or user charges.

Budget control is exercised at the department total level. Reported budgeted amounts are as originally adopted and amended by appropriation resolutions of the Council. Departmental budgets are represented by appropriations and can only be modified by Council resolution. Unencumbered appropriations lapse at year end. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriations adopted by the Council.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

Encumbrances : (Continued)

On a GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for Enterprise Funds.

Lapsing of Appropriations: At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

Budgetary Basis of Accounting: While reporting financial position, results of operations and changes in fund balance and retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget (Budgetary Basis) and Actual, All Governmental and Expendable Trust Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budgetary basis) as opposed to when the liability is incurred (GAAP basis).
3. Proceeds from and principal payments on bond anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions.
4. Outstanding year end encumbrances are treated as expenditure equivalents (budgetary basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

A reconciliation of the results of operations for the year from the GAAP basis to the budget basis follows:

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

Excess (Deficit) of Revenues and Other Financing Sources
Over/(Under) Expenditures and other Financing Uses

	General <u>Fund</u>	Special Revenue <u>Fund</u>	Debt Service <u>Fund</u>
GAAP Basis	\$1,347,419	\$ (1,080,451)	\$ (16,236)
Net Revenue Accruals	(121,536)	79,367	-
Net Expenditure Accruals	(96,917)	(679,665)	(350,000)
Net Revenue Accruals of Notes	75,000	600,000	350,000
Encumbrances	<u>(220,739)</u>	<u>(27,763)</u>	<u>-</u>
Budget Basis	<u>\$ 983,227</u>	<u>\$(1,108,512)</u>	<u>\$ (16,236)</u>

E. CASH AND CASH EQUIVALENTS

Cash balances of the City's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management. Each fund type's share of the pool is presented on the balance sheet in the account "Equity in pooled cash and cash equivalents." Investments are stated at cost, which approximates market value except for investments for deferred compensation, which are stated at market value. For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, funds included within the cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents.

The Egbert M. Freese Foundation (the Foundation) component unit utilizes a financial institution as a trustee to invest its money. One of the investments is a mutual fund which is recorded on the balance sheet as a restricted asset, "Cash and Cash Equivalents with Fiscal Agents". The other investments made for the Foundation are also recorded as restricted assets.

F. INVENTORY OF SUPPLIES

Inventory of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2001 are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

H. FIXED ASSETS AND DEPRECIATION

The fixed asset values were initially determined at December 31, 1986, assigning original acquisition costs for the majority of assets. For certain assets where the original costs were not practicably determinable, other methods were used to estimate and assign costs. During the initial development of the fixed asset records, it was not practical to determine the source of the fixed asset records; it was not practical to determine the source of the fixed asset financing, other than for certain capital contributions in the Enterprise Funds. Additionally, at the present time, it is not practical to allocate the individual fixed assets within the individual functions or programs.

Public domain ("infrastructure") general fixed assets consisting of streets, sidewalks and storm sewers are not capitalized by the City since they are immovable and of value only to the City. Electric Fund and Water and Sewer Fund infrastructures were determined in 1986 and 1995, respectively, and are all capitalized.

The City has elected not to record depreciation in the General Fixed Assets Account Group in accordance with generally accepted accounting principles for governmental entities. Depreciation is recorded in the proprietary fund types using straight-line basis over the estimated useful lives of the related assets.

Interest expenses associated with the financing of fixed assets has not been recorded by the City as a component of the cost of these fixed assets for assets constructed prior to 1986. In accordance with the Financial Accounting Standards Board Statement No. 62 (Capitalization of Interest Cost in Situations Involving Certain Gifts and Grants), the City intends to capitalize the interest cost of borrowings made to finance fixed assets, net of the related interest earned on interest-bearing investments, acquired with the proceeds of borrowings.

I. CONTRIBUTED CAPITAL

Assets constructed or acquired by the governmental fund types and transferred to the Enterprise Funds, or assets partially financed through grants to the Enterprise Funds, or assets partially

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. CONTRIBUTED CAPITAL (Continued)

financed through grants to the Enterprise Funds from other government entities, represent contributed capital, the City performed a review of financial data in the Enterprise Funds for approximately the proceeding 10-year period. This was done as part of the fiscal year 1986 audit. Contributed capital identified during this review and recorded in the accompanying financial statements represents grants received toward construction of the Water Pollution Control Plant. There were no other material capital contributions identified in this review.

The portion of total retained earnings that represents capital contributions to the Enterprise Funds made prior to that time is not practically determinable.

J. COMPENSATED ABSENCES

The City accrues compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for 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 that the employer will compensate employees for the benefits through time off or some other means. Sick leave benefits are accrued using the vesting method. An accrual for earned sick leave is made for those employees who presently meet, or in the future probably will meet, the conditions to receive termination payments. The liability is an estimate based on the City's past experience of making termination payments based on years of service and employee's age.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Debt Account Group. In Enterprise Funds, compensated absences are expensed when earned and the entire amount of compensated absences are expensed when earned and the entire amount of compensated absences is reported as a fund liability.

K. INTERGOVERNMENTAL REVENUES

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, and shared revenues, are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants or shared revenues received

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. INTERGOVERNMENTAL REVENUES (Continued)

for the enterprise fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

L. ACCRUED AND LONG-TERM LIABILITIES

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, pension obligations, and special termination benefits are reported as a liability in the General Long-Term Debt Account Group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

Under Ohio law, a debt retirement fund must be created and used for the payment of all debt principal and interest. Generally accepted accounting principles require the allocation of a debt liability among the capital projects, enterprise funds, agency funds, and the general long-term debt account group. Principal and interest payments on matured general obligation long-term debt being reported in the debt retirement fund has been split among the appropriate funds and account groups. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

M. RESERVES OF FUND EQUITY

The City records reservations for portions of fund balance which are legally segregated for specific future use of which do not represent available, expendable resources and, therefore, are not available for appropriations for expenditure. Undesignated fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund balance reserves have been established for prepaid expense, debt service, inventory, encumbrances, and loans receivable.

N. INTERFUND TRANSACTIONS

During the course of normal operations the City has numerous transactions between funds. The most significant are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. INTERFUND TRANSACTIONS (Continued)

Nonrecurring and nonroutine transfers of equity between funds and the transfer of residual balances of the discontinued funds or projects to the general fund, capital projects funds, or debt service funds (when financed with debt proceeds) are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

O. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

Total columns on the general purpose financial statements are captioned "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. ACCOUNTABILITY AND COMPLIANCE

A. ACCOUNTABILITY - FUND BALANCE DEFICITS

Fund balance at December 31, 2001, included the following individual fund deficits:

<u>Special Revenue Fund</u>	
<i>Airport Fund</i>	\$ (236,662)
<i>Street Construction, Maintenance and Repair Fund</i>	\$ (1,724,108)
<i>Street Improvement Fund</i>	\$ (752,908)
<i>Police Pension Fund</i>	\$ (360,475)
<i>Fire Pension Fund</i>	\$ (363,469)

The Street Improvement Fund deficit fund balance is the result of the City obtaining a short-term note payable of \$450,000 to resurface certain municipal streets. The Airport Fund deficit fund balance is the result of the City obtaining a short-term note payable of \$150,000 to purchase and improve the City's Airport. These deficits will be alleviated when the bonds are issued or when the notes are paid.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

3. DEPOSITS AND INVESTMENTS

The City maintains a cash pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash and cash equivalents."

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

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the municipality. Such monies must be maintained either as cash in the Municipal treasury or in depository accounts payable or withdrawable on demand, including negotiable order withdrawal (NOW) accounts.

Category 2 consists of "inactive" monies, those monies not required for uses within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim monies;
5. Bonds and other obligations of the State of Ohio; and
6. The State Treasurer's investment pool.

At year-end, the City had \$2,100 in petty cash which is included on the balance sheet as part of "Cash and cash equivalents in segregated accounts". This amount is uninsured and uncollateralized.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits At year end, the carrying amount of the City's deposits was \$1,271,517 and the bank balance was \$1,676,240. Of the bank balance:

1. \$200,392 was covered by federal depository insurance, by collateral held by the City or by collateral held by a qualified third party trustees in the name of the City;
2. \$1,475,848 was collateralized through pool pledged securities held by third party trustees.

Collateral is required for demand deposits and certificates of deposits at 110 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and district corporations.

Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

Investments - Investment procedures are restricted by provisions of the City code and Ohio Revised Code. Investment earnings are allocated to the General Fund. The City has an investment on deposit in a local savings and loan which is comprised of employee contributions for deferred compensation.

The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end.

Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which securities are held by the Trust department but not in the City's name. The following investments are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>3</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Equities (Common Stock)	\$ 5,524,609	\$ 5,524,609	\$ 5,524,609
Treasuries	781,455	781,455	781,455
Agencies	52,308	52,308	52,308
Corporate Bonds	1,096,395	1,096,395	1,096,395
Government Mortgage Backed Securities	1,157,021	1,157,021	1,157,021
Corporate Asset Backed Securities	157,555	157,555	157,555
Other Assets	10	10	10
Repurchase Agreement	254,000	254,000	254,000
Mutual Funds	-	239,916	239,916
Total	<u>\$ 9,023,353</u>	<u>\$9,263,269</u>	<u>\$9,263,269</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

3. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include within the City's cash management pool.

A reconciliation between the classification of cash and investments on the combined financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB- Statement – 9	\$1,986,825	\$ 8,769,353
Restricted Cash	(219,292)	-
Cash on hand	(2,100)	-
Mutual Funds	(239,916)	239,916
Repurchase Agreement	<u>(254,000)</u>	<u>254,000</u>
GASB Statement - 3	<u>\$1,271,517</u>	<u>\$ 9,263,269</u>

Restricted Cash – Restricted assets including those comprising the Debt Service Reserve Fund, which is established and maintained pursuant to the OMEGA JV2 Bonds Trust Agreement. At December 31, 2001, the investments were held in money market funds and cash equivalents with a cost and market value of \$4,005,650. Galion's share of this fund is 5.47% or \$219,292. The fund is held by the bond trustee. In accordance with the trust agreement, amounts in the Debt Service Reserve Fund may be used in the event of nonpayment of bond debt service by any participant or to make any portion of the final debt service payment amount due on January 1, 2021.

Only the Board of Trustees of the Egbert M. Freese Foundation (the Foundation) has the power and authority to appropriate for distribution funds held by the Foundation. The Foundation is recorded as an expendable trust fund on the City's financial statements. See note 1(A). Cash and cash equivalents of \$239,916 and investments of \$8,769,353 are held by the Foundation at December 31, 2001. They are reported as restricted assets on the balance sheet.

4. TAXES

Property Tax - Property taxes include amounts levied against all real and public utility property and tangible personal property (used in business) located in the City. Real property taxes are levied each January 1 on the assessed value as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. A revaluation of all property is required to be completed not less than every six years.

A triennial update was completed in 2000. The assessed value upon which the 2001 levy was based \$123,076,491. The tax rate applicable to 2001 was 7.55 mills.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

4. TAXES (Continued)

Property Tax (Continued)

Real Property – 2000 Valuation	
Residential/Agricultural	\$ 81,943,130
Commercial/Industrial	21,596,830
Tangible Personal Property – 2001 Valuation	
General	17,155,071
Public Utilities	<u>2,381,460</u>
Total Valuation	<u>\$123,076,491</u>

The Crawford County Treasurer collects property tax on behalf of all taxing districts within Crawford County including the City of Galion. Taxes are payable to the County in two equal installments in January and July and, if not paid, become delinquent after December 31 of the year they are due. The Crawford County Auditor periodically remits to the City its portion of the taxes collected. Such collections are available only to pay current period liabilities.

Collection of delinquent property taxes is the responsibility of the County. The County Auditor's records as the delinquencies are maintained on a total county basis. The delinquent property taxes related to an individual subdivision within the County are not practically determinable from the County records. Accordingly, delinquent property taxes are only reflected in the accompanying financial statements to the extent they are collected.

City Income Tax - The City levies an income tax of 1.50% on the gross salaries, wages and other personal service compensation earned by residents of the City and to the earnings for nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. A portion of the City's 2001 income tax (.39%) is to be used exclusively for increased Police Protection Services, increased fire Protection Services, Fire Suppression equipment and structures, and an ambulance subsidy. A .11% portion of the 2001 income tax is to be exclusively for the purposes of recreation and acquisition of real estate.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

4. TAXES (Continued)

City Income Tax (Continued)

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

Residents of the City are granted a full credit for taxes paid to other Ohio Municipalities.

5. RECEIVABLES

The City's receivables at December 31, 2001, by fund type consist of the following:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Total</u>
City Income Taxes	\$ 520,617	\$ -	\$ -	\$ -	\$ 520,617
Property Taxes	300,000	53,000	100,000	-	453,000
Delinquent Property Taxes	<u>3,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,520</u>
Total Taxes	824,137	53,000	100,000	-	977,137
CDBG	-	84,181	-	-	84,181
Accounts Due from other Governments	<u>173,018</u>	<u>73,212</u>	<u>-</u>	<u>1,461,970</u>	<u>246,230</u>
Total	<u>\$ 997,155</u>	<u>\$ 210,393</u>	<u>\$ 100,000</u>	<u>\$ 1,461,970</u>	<u>\$ 2,769,518</u>

The above receivable amounts are net of the applicable allowance for uncollectibles, which are not material in relation to the respective receivable balances.

City income taxes are accrued at December 31, 2001, to the extent of individual estimates and employee withholdings for the last quarter of 2001, which are due by April 15, 2002.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

5. RECEIVABLES (Continued)

Residents are billed on a monthly basis for water, sewer and electric service, based upon the actual cycle billings prorated by the various reading dates at the end of the year.

The current portion of the \$197,575 Community Development Block Grant Loans is \$84,181.

6. INTERFUND TRANSACTIONS

Amounts due to/from other funds as of December 31, 2001 are:

<u>Fund Type</u>	<u>RECEIVABLE</u> <u>Due From Other Funds</u>	<u>PAYABLE</u> <u>Due to other Funds</u>
General Fund	\$ 961,615	\$ 48,670
Special Revenue Funds	1,041,764	2,900,804
Enterprise Funds	887,716	38,475
Internal Service Funds	96,854	-
Total all Funds	<u>\$ 2,987,949</u>	<u>\$ 2,987,949</u>

7. FIXED ASSETS

The property, plant and equipment values were initially determined at December 31, 1986, assigning original acquisition costs for the majority of assets. In cases where information supporting original costs was not practically determinable, estimated costs were developed using various valuation methods.

Costs in the amount of \$500 or more, associated with the construction and acquisition of general fixed assets are included in the Capital Outlay amount within the accompanying financial statements.

Costs associated with the construction of infrastructure fixed assets are not capitalized in the General Fixed Assets Account Group in accordance with the City's accounting policy and, accordingly, are not reflected as additions in the General Fixed Assets Account Group.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

7. FIXED ASSETS (Continued)

A summary of general fixed assets at December 31, 2001, by class and the changes therein during 2001, is as follows:

	Balance <u>1/01/01</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/01</u>
Land	\$ 997,104	\$ -	\$ -	\$ 997,104
Land Improvements	1,925,540	56,394	-	1,981,934
Buildings	2,567,534	8,995	-	2,576,529
Equipment	2,893,020	271,431	-	3,164,451
Construction In Progress	-	<u>115,832</u>	-	<u>115,832</u>
Total	<u>\$ 8,383,198</u>	<u>\$ 452,652</u>	<u>\$ -</u>	<u>\$ 8,835,850</u>

A summary of proprietary fund property, plant and equipment at December 31, 2001 by class and by individual fund is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Land	\$ 51,145	\$ 229,146	\$ 78,889	\$ 359,180
Land Improvements	375,293	255,136	28,212	658,641
Utility Plant				
In Service	3,418,870	5,631,064	9,619,653	18,669,587
Machinery & Equipment	1,808,373	639,527	1,620,440	4,068,340
Construction In Progress	2,148,201	1,406,505	113,890	3,668,596
Utility Line in Service	<u>9,089,244</u>	<u>7,324,098</u>	<u>8,509,407</u>	<u>24,922,749</u>
Totals	16,891,126	15,485,476	19,970,491	52,347,093
Less-Accumulated				
Depreciation	<u>10,552,770</u>	<u>7,175,963</u>	<u>9,310,691</u>	<u>27,039,424</u>
Net Property, Plant and Equipment	<u>\$ 6,338,356</u>	<u>\$ 8,309,513</u>	<u>\$ 10,659,800</u>	<u>\$ 25,307,669</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

7. FIXED ASSETS (Continued)

Depreciation is provided using the straight-line basis over the estimated useful lives of the assets. Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Life</u>
Utility plant in service	40-80 Years
Improvements other than buildings	20-50 Years
Machinery and equipment	5-20 Years
Utility Line in Service	25-50 Years

8. DEBT OBLIGATIONS

A listing of the changes in the debt of the City for the year ended December 31, 2000 follows:

	<u>Balance</u> <u>1/01/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/01</u>
General Obligation Bonds:				
7.25% to 7.75% Library				
Bonds, due through 2010	\$ 540,000	\$ -	\$ 35,000	\$505,000
OPWC Note:				
0% Ohio Public Works				
Commission Street				
Improvements Promissory				
Note, due through 2005	<u>106,548</u>	<u>-</u>	<u>19,373</u>	<u>87,176</u>
TOTAL GENERAL LONG-TERM				
DEBT	<u>\$ 646,548</u>	<u>\$ -</u>	<u>\$ 54,373</u>	<u>\$ 592,176</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

8. DEBT OBLIGATIONS (continued)

	<u>Balance</u> <u>1/01/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/01</u>
Enterprise Debt:				
9.625% General Obligation WWPT Bonds, due Through 2004	\$ 400,000	\$ -	\$ 100,000	\$ 300,000
4.60% to 5.50% General Obligation Sewer System Improvement Bonds, due through 2000	200,000	-	100,000	100,000
4.00% to 5.25% Revenue Obligation Electric (JV2) Improvement Bonds, due through 2021	-	2,751,516	82,392	2,669,124
0% Ohio Public Works Commission Cherry Street Sanitation Sewer Promissory Note, due Through 2014	349,793	-	26,907	322,886
2% Ohio Water Development Authority Water Promissory Note, due through 2022	331,778	-	12,868	318,910
2% Ohio Water Development Authority Sewer Promissory Note, due through 2022	87,224	-	3,383	83,841
0% Ohio Public Works Commission Waterline Promissory Note, due through 2022	-	71,104	-	71,104
2% Ohio Water Development Authority Promissory Note, due through 2032	-	<u>1,385,264</u>	<u>-</u>	<u>1,385,264</u>
Total Enterprise Debt	<u>1,368,795</u>	<u>4,207,884</u>	<u>325,550</u>	<u>5,251,129</u>
Total Long-Term Debt	<u>\$2,015,343</u>	<u>\$4,207,884</u>	<u>\$ 379,922</u>	<u>\$ 5,843,305</u>

The City has pledged its full faith and credit as collateral for the tax supported General Obligation Bonds and Notes. These notes and bonds are to be retired by the Debt Service Fund or the

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

8. DEBT OBLIGATIONS (continued)

General Fund, if necessary. The OMEGA JV2 Revenue Bonds are payable from the revenues of its municipal electric utility system. The City has the ability to issue \$5.11 million of additional debt without obtaining voter approval.

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

Future Payments Due In	General Long Term Obligations Account Group		Enterprise Debt	
	Principal	Interest	Principal	Interest
2002	59,372	38,812	354,057	182,764
2003	64,372	35,813	275,693	179,572
2004	64,372	32,437	280,555	164,926
2005	69,372	29,063	185,712	150,098
2006	64,688	25,188	191,165	144,696
Thereafter	<u>270,000</u>	<u>54,250</u>	<u>3,963,947</u>	<u>1,287,125</u>
TOTAL	<u>\$ 592,176</u>	<u>\$215,563</u>	<u>\$ 5,251,129</u>	<u>\$2,109,181</u>

A summary of the short-term note activity for the year ended December 31, 2001 follows:

	<u>Interest Rate</u>	<u>Outstanding 1/01/01</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/01</u>
<u>General Fund</u>					
General Obligation:					
Park and Recreation Improvement	3.49%	\$ 350,000	\$ 325,000	\$ 350,000	\$ 325,000
Fire Truck Renovation	3.49%	125,000	100,000	125,000	100,000
<u>Special Revenue Fund</u>					
General Obligation:					
Airport	3.49%	175,000	150,000	175,000	150,000
Street Improvement	3.49%	500,000	450,000	500,000	450,000
<u>Proprietary Fund</u>					
General Obligation:					
Electric System Improvement	2.35%	4,000,000	5,500,000	4,000,000	5,500,000
Water System Improvement	3.49%	<u>500,000</u>	<u>450,000</u>	<u>500,000</u>	<u>450,000</u>
Total Short-Term Notes Payable		<u>\$5,650,000</u>	<u>\$6,975,000</u>	<u>\$5,650,000</u>	<u>\$6,975,000</u>

All of the notes are bond anticipation notes and backed by the full faith and credit of the City. The note liability is reflected in the fund that received the proceeds.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

9. LEASES

The City has entered into a capital lease for equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as a reduction of the liability in the enterprise funds. General fixed assets consisting of equipment have been capitalized in the Sewer enterprise fund in the amount of \$212,651. These amounts represent the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the enterprise fund. Principal payment in 2001 totaled \$47,413 in the enterprise fund.

	<u>Sewer</u>
Property under capital lease	\$212,651
Less Accumulated depreciation	<u>(5,316)</u>
Total December 31, 2001	<u>\$207,335</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2001:

<u>Year</u>	<u>Sewer</u>
2002	\$47,414
2003	47,413
2004	47,414
2005	<u>47,413</u>
TOTAL	189,654
Less: Amount Representing Interest	<u>(24,416)</u>
Present Value of Net Minimum Lease Payments	<u>\$165,238</u>

The City is party to the following agreements as a lessor:

<u>Lessee</u>	<u>Property</u>	<u>Amount</u>
Galion City Board of Education	City Land Parcel	\$ 1 per year
Crawford County Commissioners	Municipal Government	\$ 225 per month
Galion Jaycees	Old Waterworks Plant	\$ 1 per year
Various	Airport Hangars	\$ 4,148 per month

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

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

10. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three Enterprise Funds, which provide electric, water, and wastewater treatment/sewer services. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment information for the year ended December 31, 2001, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Utility Deposit</u>	<u>Total Enterprise Fund</u>
Operating Revenues	\$6,306,746	\$1,510,112	\$1,855,191	\$ -	\$ 9,672,049
Operating Expenses	8,555,875	1,391,778	1,650,824	-	11,598,477
Depreciation and Amortization Expenses	522,237	202,263	293,006	-	1,017,506
Operating Income (Loss)	(2,249,129)	118,334	204,367	-	(1,926,428)
Nonoperating Revenue (Expense)	(475,065)	300,195	178,719	-	3,849
Net Income (Loss)	(2,724,194)	418,529	383,086	-	(1,922,579)
Capital Acquisition	1,587,209	1,484,533	336,519	-	3,408,261
Net Working Capital	(4,513,406)	170,474	(47,881)	-	(4,390,813)
Total Asset	11,297,407	9,134,583	10,992,706	191,194	31,615,890
Total Fund Equity	\$1,744,369	\$6,670,705	\$9,772,965	-	\$ 18,188,039

11. PENSION AND RETIREMENT PLANS

A. Police and Firemen's Disability and Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

11. PENSION AND RETIREMENT PLANS (Continued)

A. Police and Fireman's Disability and Pension Fund (Continued)

The City of Galion required contributions:

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
1999	\$199,412	100%
2000	\$207,204	100%
2001	\$199,864	100%

The required contributions listed above include the amount to fund postemployment benefits.

The OP&F provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The Ohio Revised Code provides the statutory authority allowing the Fund's board of trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of the health care coverage through a deduction from their monthly benefit payment.

OP&F, as of December 31, 2001, has 12,853 and 10,037 participants eligible to receive health care benefits for police and firemen, respectively.

The City contribution made to fund postemployment benefits under the OP&F during 2001 was \$57,210 for police and \$49,240 for fire to postemployment benefits.

The OP&F's total health care expenses for the year ended December 31, 2001 was \$106,160,054, which was net of member contributions of \$5,657,431.

The City is required to make payments to the Police and Firemen's Disability and Pension Fund to fund the City's accrued liability established at the time the City joined the Fund. The City paid \$8,051 in 2001 relating to this liability. The unpaid balance is payable in equal semi-annual installments of \$4,026 through the year 2035. This liability is recorded in the general long-term debt account group of the City.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

11. PENSION AND RETIREMENT PLANS - (Continued)

B. Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio (PERS) is a cost-sharing multiple-employer defined benefit pension plan created by the State of Ohio.

PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The rate set for employee contributions for 2001 was 8.5 percent for employees other than law enforcement employees. Law enforcement employees contributed 9.0 percent of covered salary. The employer contribution rate for all employees other than law enforcement was 13.55 percent of covered payroll. The law enforcement employer rate was 16.70 percent of covered payroll.

Employer Contributions required by the Ohio Revised Code:

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
1999	\$266,933	100%
2000	\$205,810	100%
2001	\$290,587	100%

The above chart includes the amount to fund postretirement benefits.

The Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for the year 2001.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

11. PENSION AND RETIREMENT PLANS (Continued)

B. Public Employees Retirement System (PERS) (Continued)

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 2000 were \$523,599,349. As of December 31, 2000, the unaudited estimated net assets available for future OPEB payments were \$11,735,900,000. The number of benefits recipients eligible for OPEB at December 31, 2001 was 411,076.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of new member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

12. COMPENSATED ABSENCES

Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Sick leave is accumulated and may be converted into cash upon retirement with three years of service at the rate of sixty-six and two-thirds percent (66 2/3 percent). Individuals leaving the employment of the City prior to retirement or at retirement with less than three years of service lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for the vested portions of these sick and vacation leave amounts in the amount of \$844,198. Vacation is earned by City employees based on years of service, as established in the various Negotiated Agreements. Vacation is accumulated on a bi-weekly basis.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

13. RISK MANAGEMENT

Comprehensive -The City maintains comprehensive insurance coverage with Public Entities Pool of Ohio for employee liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage, as well as coverage for uninsured and underinsured motorists. The maximum coverage for the vehicle policy is \$2,000,000 combined single limit of bodily injury and property damage for each occurrence, accident, or claim; and \$100,000 for uninsured and underinsured motorists.

Self-Insurance - On July 1, 1988, the City established a self-insurance program for medical benefits that is reported in the Self-Insurance Fund (an internal service fund). This program is administered by an independent company, which furnishes verification, processing and payment services. A specific excess major medical reinsurance policy indemnifies the City for any amount over \$30,000 per individual or \$538,651 total paid in any fiscal year. The maximum this policy will pay is \$1,000,000 in any fiscal year. In accordance with GASB Statement No. 10, the total amount charged to other funds is equal to the total expenses of the Self-Insurance Fund. The estimated accrued liability for claims is also determined by the independent company by examining 2002 payments and accruing all expenses incurred in 2001. Changes in the Funds claims liability amounts were as follows:

	<u>Beginning Claims Liability</u>	<u>Current Year Claims And Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Claims Liability</u>
2000	\$108,069	\$1,096,265	\$1,108,721	\$ 95,613
2001	\$ 95,613	\$946,284	\$936,550	\$105,347

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

14. CONTINGENT LIABILITIES

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

15. INVESTMENT IN JOINT VENTURE WITH EQUITY INTEREST

The City's Electric Enterprise fund participated in a joint venture agreement with 35 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2) for the purpose of providing electric power and energy to its participants on a cooperative basis. OMEGA JV2 is organized, existing and authorized by Article XVIII, Section 3 and 4 of the Ohio Constitution in the manner contemplated by Section 715.02 of the Ohio Revised Code and other applicable provisions of Ohio Law. OMEGA JV2 was formed on November 21, 2000 and its existence was ratified on December 7, 2000.

OMEGA JV2 is a 138.60 MW project that includes two 32 MW used gas-fired turbines, one 11 MW used as-fired turbine, and thirty-four 1.825 MW new and 1.6 MW used oil-fired diesel generator units. Title to this project was transferred to the 36 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract.

The following summary is comprised of audited financial information of OMEGA JV2 for the year ended December 31, 2001:

	<u>OMEGA JV2</u>
Total Assets	\$55,534,206
Total Liabilities	552,314
Members Equity	54,981,892
Total Revenues	2,095,967
Total Expenses	5,884,673
Excess Income Over/(Under) Expenses	(3,788,706)

The City is a financing owner participant of the joint venture, meaning it will finance its project shares, or ownership interest, with a portion of the proceeds from a debt issuance. The City's OMEGA JV2 participant ownership is 4.29%.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

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

The non-financing participants in OMEGA JV2 contributed \$12,665,886 during the year ended December 31, 2001. On January 21, 2002, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the financing participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The difference between gross bond proceeds and net bond proceeds is attributable to funding the Debt Service Reserve Fund, a bond premium, and bond issuance costs. The City's share of the bonds payable was 5.47% (see note 8).

The City has reported \$2,359,102 in equity interest for this joint venture on the combined balance sheet as of December 31, 2001 and a \$162,562 loss on investment in joint venture on the combined statement of revenues, expenditures and changes in fund equity. Separate financial statements for the joint venture are available through AMP-Ohio.

The following table shows the major participants and percentage of ownership for the OMEGA JV2 project:

<u>Participants</u>	<u>Percentage of Ownership</u>
Hamilton	23.87%
Bowling Green	14.32
Niles	11.49
Cuyahoga Falls	7.46
Wadsworth	5.81
Painesville	5.22
Galion	4.29
St. Mary's	2.98
Other	<u>24.56</u>
 TOTAL	 <u>100.00%</u>

16. CONTRACTUAL COMMITMENTS

At December 31, 2001, the City had the following contractual commitments:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Completed</u>	<u>Contract Balance</u>
Thompson Electric	\$1,279,020	\$730,924	\$548,096
J.W. Didado Electric	228,850	97,980	130,870
Reed City Power Line Supply	456,697	431,465	25,232
PFK Associates	347,000	131,662	215,338

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

17. PRIOR PERIOD ADJUSTMENTS

During 2000, the City expensed \$214,937 that should have been capitalized.

The City's fixed assets listings have not been properly maintained since 1990. The Enterprise Funds fixed asset listing were updated this year. Depreciation had been overstated \$271,208 in prior years and \$66,395 in 2000.

Additionally, the city received \$157,897 from the Ohio Public Works Commission in 2001 which was earned in 2000. As a result, contributed capital in the enterprise funds increased from \$7,767,197 to \$7,925,094.

The changes had the following effect on the net loss previously reported as of December 31, 2000:

	<u>Enterprise</u>
Net Income (Loss) as previously Reported	(\$2,243,724)
Restatement of Fixed Assets	214,937
Restatement of Depreciation Expense	<u>66,395</u>
Restated amount for the year ended December 31, 2000	<u>(\$1,962,392)</u>

These changes had the following effect on retained earnings as previously reported as of December 31, 2000:

	<u>Enterprise</u>
Retained Earnings as previously reported	\$ 11,699,379
Restatement of fixed assets	214,937
Restatement of accumulated depreciation	<u>271,208</u>
Restated Retained Earnings as of December 31, 2000	<u>\$12,185,524</u>

18. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the City has implemented GASB statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." The statement established accounting and reporting guidelines for government's decisions about when (in the fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The implementation of GASB statement No. 33 did not have a material effect on fund balance as it was previously reported as of December 31, 2000.

CITY OF GALION, OHIO
CRAWFORD COUNTY

STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS

The audit report for the period ending December 31, 2000 included various citations and recommendations. Each of these citations and recommendations have either been satisfied or corrected, or are reflected in the appropriate section of this report. Such citations and recommendations are denoted by an asterisk.

Guillan & Company

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Manager
Members of City Council
City of Galion, Ohio

We have audited the financial statements of the City of Galion, Ohio, as of and for the year ended December 31, 2001, and have issued our report thereon dated September 9, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 01-2, 01-3, 01-4 and 01-5. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 9, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect The City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 01-1.

**City of Galion
Crawford County**

A material weakness is a condition in which the design or operation of one or more in the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated September 9, 2002.

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

September 9, 2002

Guillan & Company

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Galion.
2. One reportable conditions was disclosed during the audit of the financial statements of the City of Galion.
3. Four instances of noncompliance material to the financial statements of the City of Galion were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

01-1 Fixed Assets *

The City's fixed assets listing has not been properly maintained since 1990. The City has a \$500 minimum for items on their Fixed Asset List, however, there are many items on the list under \$100. Items are not always in the location stated on the Fixed Asset List. Items are not deleted or added in a timely manner.

Without an accurate Fixed Asset List, City property could be lost, stolen, or misplaced without being detected within a timely period. To correct these weaknesses, we recommend the City update their Fixed Asset List and maintain it on a regular basis.

01-2*

Ohio Revised Code Section 5705.39, stipulates that the total appropriations from a fund cannot exceed the estimated resources as certified by the County Auditor. The City's appropriations exceeded the estimated revenue in the following funds:

	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund	5,951,479	6,977,383	(1,025,904)
<u>Special Revenue Funds</u>			
Street C, M, & R Fund	800,000	910,000	(110,000)
Street Improvement Fund	100,000	927,896	(827,896)
<u>Enterprise Funds</u>			
Water	1,800,000	2,928,396	(1,128,396)
Electric Fund	8,800,000	14,306,021	(5,506,021)
Sanitary Sewer Fund	1,875,000	2,050,000	(175,000)
Utility Deposit Fund	-	125,000	(125,000)

**City of Galion
Crawford County**

Additionally, the City did not receive the County Auditor's certificate stating that the total appropriations from each fund did not exceed the total estimated revenues. This could lead to the City purchasing items that it does not have the money to pay for them. It is recommended that the City ensures that appropriations do not exceed estimated revenue for the year.

01-3 *

Ohio Revised Code Section 5705.41(B), stipulates that no expenditure of money shall be made unless the funds have been appropriated. The City's expenditures exceeded appropriations in the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
<u>Special Revenue Fund</u>			
Street C, M & R Fund	910,000	1,492,795	(582,795)
<u>Debt Service Fund</u>			
Debt Retirement Fund	438,027	695,369	(257,342)
<u>Internal Service Fund</u>			
Health Insurance Fund	600,000	938,025	(338,025)

This could lead to the City spending more money than it has. It is recommended that the City does not expend money that has not been properly appropriated.

01-4 *

Ohio Revised Code Section 5705.40, states that any appropriations measure may be amended or supplemented as long as the entity complies with the same provisions of law as are used in making the original appropriation. The City passed amended appropriation ordinances without filing them with the County Auditor. It is recommended that that all amendments be filed with the County Auditor.

01-5 *

Ohio Revised Code Section 5705.36 (A)(1), requires that on or about the first day of each fiscal year, subdivisions and other taxing units are to certify to the County Auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any balance that existed at the end of the preceding year. The City was unable to verify that the required certificate was sent to the County Auditor. It is recommended that the City file the Certificate of Available Resources from all Available Sources with the County Auditor.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

GENERAL COMMENTS

The audit report was reviewed with and acknowledged by the following officials on September 9, 2002:

Bill Baurer Finance Director

These officials were informed that they have five working days for the Auditor of State from the date of the post audit conference to respond to, or contest, in writing, the contents of this report. No such response was received.

City personnel were cooperative and available for questions and assistance during regular working hours.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF GALION

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 7, 2002**