



Mary Taylor, CPA
Auditor of State

**CITY OF GALION
CRAWFORD COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
General Purpose External Financial Statements:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	17
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	18
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to Statement of Activities	19
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual – General Fund.....	20
Statement of Fund Net Assets – Proprietary Funds	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds.....	24
Notes to the Basic Financial Statements	27
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	65
Schedule of Findings.....	67
Schedule of Prior Audit Findings.....	71

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Auditor of State served during the year ended December 31, 2005, as the City's financial supervisor under Ohio Revised Code §118.05(G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 25, on August 9, 2004, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission has been appointed to oversee the financial affairs of the City.

Also, as described in Note 3, for the year ended December 31, 2005, the City has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from the cash basis of accounting to government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the FFCU's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Galion, Crawford County, Ohio, as of December 31, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Mary Taylor, CPA
Auditor of State

August 22, 2007

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The discussion and analysis of the City of Galion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2005 are as follows:

In total, the City's net assets increased 16 percent from the prior year; 19 percent for governmental activities and 10 percent for business-type activities. This demonstrates a fairly significant improvement in the City's financial position as the City continues to recover from fiscal emergency. While the City is still unable to project when it will emerge from fiscal emergency, this progress reflects the diligence of City officials and employees in regaining financial stability in the City.

General revenues only made up 52 percent of the total revenues for governmental activities in 2005. In addition to various charges for services, the City was able to obtain program specific grants and contributions which largely supported governmental programs in 2005.

The City's General Fund continued to have a deficit fund balance at the end of the year; however, that deficit was reduced by more than half during 2005. Most of this reduction was the result of very conservative spending; nothing was purchased unless it was absolutely necessary.

The City's Electric enterprise fund continued to have deficit net assets at the end of the year. In July 2005, the City increased electric rates by 8 percent and employed a more effective process of monitoring and regulating the power cost adjustment. The combination of these two factors will eliminate this fund's deficit over the next several years.

USING THIS ANNUAL REPORT

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

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2005 and 2004.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current and Other Assets	\$4,555,218	\$1,512,154	\$6,538,030	\$6,209,474	\$11,093,248	\$7,721,628
Capital Assets, Net	15,409,335	16,216,430	21,201,533	21,985,961	36,610,868	38,202,391
Total Assets	<u>19,964,553</u>	<u>17,728,584</u>	<u>27,739,563</u>	<u>28,195,435</u>	<u>47,704,116</u>	<u>45,924,019</u>
<u>Liabilities</u>						
Current and Other Liabilities	2,737,797	2,075,430	2,076,763	8,374,546	4,814,560	10,449,976
Long-Term Liabilities	4,158,978	4,700,451	18,315,115	13,170,552	22,474,093	17,871,003
Total Liabilities	<u>6,896,775</u>	<u>6,775,881</u>	<u>20,391,878</u>	<u>21,545,098</u>	<u>27,288,653</u>	<u>28,320,979</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	11,477,511	11,765,751	4,664,301	5,135,403	16,141,812	16,901,154
Restricted	3,183,460	592,136	0	0	3,183,460	592,136
Unrestricted (Deficit)	(1,593,193)	(1,405,184)	2,683,384	1,514,934	1,090,191	109,750
Total Net Assets	<u>\$13,067,778</u>	<u>\$10,952,703</u>	<u>\$7,347,685</u>	<u>\$6,650,337</u>	<u>\$20,415,463</u>	<u>\$17,603,040</u>

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

A review of the above table reflects a number of significant changes from the prior year, particularly for governmental activities. The increase in current and other assets, over \$3 million, can be attributed to three primary sources. Cash and cash equivalents increased just over \$2 million due to frugal spending by all City departments, necessitated by the City's fiscal emergency situation, as well as proceeds from the issuance of revenue anticipation notes not spent as of year end. At the end of the year, the City had an outstanding receivable from the State Department of Development, in excess of \$500,000, for an economic development project. Lastly, the City's General Fund had a receivable of a little over \$465,000 from the City's various enterprise funds for services provided to them throughout the year.

The increase in current and other liabilities in governmental activities is primarily the result of the issuance of \$818,000 in local government fund notes. These revenue anticipation notes pledge the City's future receipt of local government fund monies from the State for their repayment over a ten year period. The decrease in long-term liabilities is simply the result of principal payments made in 2005 on the City's long-term debt.

Spending reductions, resources allocated to alleviate the deficit in the Street Maintenance fund, and development related grants led to the increase in the City's restricted net assets from the prior year.

For business-type activities, there is one significant change of note. This is reflected in the decrease in current and other liabilities and the corresponding increase in long-term liabilities. During the year, the City retired a one-year note of \$5.5 million by entering into a long-term loan arrangement with AMP-Ohio. This loan was for monies spent in prior years for subsystem upgrades to the City's electric system.

Table 2 reflects the changes in net assets for 2005. Since this is the first year the City has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to 2004 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities	Business-Type Activities	
	2005	2005	Total
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$3,035,699	\$14,705,485	\$17,741,184
Operating Grants, Contributions, and Interest	1,136,343	53,292	1,189,635
Capital Grants and Contributions	197,830	0	197,830
Total Program Revenues	4,369,872	14,758,777	19,128,649

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Table 2 Changes in Net Assets			
	Governmental Activities	Business-Type Activities	
	2005	2005	Total
<u>Revenues</u> (continued)			
General Revenues			
Property Taxes Levied for General Purposes	\$408,044	\$0	\$408,044
Property Taxes Levied for Police and Fire Pension	74,446	0	74,446
Property Taxes Levied for Debt Service	7	0	7
Municipal Income Taxes Levied for General Purposes	1,815,706	0	1,815,706
Municipal Income Taxes Levied for Police and Fire	688,023	0	688,023
Municipal Income Taxes Levied for Recreation	192,575	0	192,575
Other Local Taxes	448,289	0	448,289
Grants and Entitlements not Restricted to Specific Programs	529,870	0	529,870
Interest	34,504	4,790	39,294
Other	567,815	383,478	951,293
Total General Revenues	4,759,279	388,268	5,147,547
Total Revenues	9,129,151	15,147,045	24,276,196
<u>Program Expenses</u>			
Security of Persons and Property			
Police	1,585,498	0	1,585,498
Fire	1,636,715	0	1,636,715
Public Health	303,451	0	303,451
Leisure Time Activities	299,882	0	299,882
Community Environment	88,057	0	88,057
Transportation	1,353,655	0	1,353,655
General Government	1,363,921	0	1,363,921
Interest and Fiscal Charges	265,016	0	265,016
Water	0	2,118,098	2,118,098
Sewer	0	2,004,635	2,004,635
Electric	0	10,293,623	10,293,623
Storm Water	0	151,222	151,222
Total Expenses	6,896,195	14,567,578	21,463,773
Increase in Net Assets Before Transfers	2,232,956	579,467	2,812,423
Transfers	(117,881)	117,881	0
Increase in Net Assets	2,115,075	697,348	2,812,423
Net Assets Beginning of Year	10,952,703	6,650,337	17,603,040
Net Assets End of Year	\$13,067,778	\$7,347,685	\$20,415,463

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

The above table reflects the revenues and expenses for operating the City during 2005. One unusual item for governmental activities is how great the percentage of program revenues is to total revenues. Various charges for services and non-recurring operating grants led to this high percentage of program revenues. For general revenues, it is apparent how significant a revenue source the City's income taxes are and just how little the City receives in property taxes. One other important relationship to note is that, for 2005, the portion of the income taxes restricted for police and fire operations provided for less than one-quarter of the operating costs of those departments.

In reviewing expenses, note that police and fire operations account for 47 percent of the City's total expenses and the street department operations account for another 20 percent of total expenses. These three departments, along with the basic costs of city operations (administration, receipt collections, paying bills, etc.), account for 86 percent of all of the City's general governmental expenses.

As is to be expected, 97 percent of the revenues for business-type activities is received through charges for services provided to the users of the systems. By far, the electric distribution system is the City's largest enterprise as demonstrated by the costs to operate the system. As is the intent of enterprise operations, overall, the costs of the City's four utilities were recovered through user charges and other revenues in 2005 (10 percent increase in net assets); however, a review of the individual utility systems reveals that the water system operated at a loss in 2005.

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2004 have not been made since they are not available for this year.

Table 3
Governmental Activities

	<u>Total Cost of Services 2005</u>	<u>Net Cost of Services 2005</u>
Security of Persons and Property		
Police	\$1,585,498	\$1,518,607
Fire	1,636,715	1,291,229
Public Health	303,451	91,694
Leisure Time Activities	299,882	283,502
Community Environment	88,057	(466,720)
Transportation	1,353,655	468,722
General Government	1,363,821	(925,727)
Interest and Fiscal Charges	265,016	265,016
	<u>\$6,896,195</u>	<u>\$2,526,323</u>

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

While the dependence on general revenues to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a substantial portion of the costs. For example, charges for services provide for 67 percent of public health costs and charges for services and operating grants and contributions provide for 59 percent of transportation costs. Operating grants exceeded the costs of operations in the community environment program due to economic development monies and charges for services exceeded the costs of general government operations due to charges to the utility systems for general government services provided to them combined with limited spending in the general government program.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's only major governmental fund is the General Fund. The General Fund experienced a \$746,123 increase in fund balance in 2005, a 54 percent improvement from the prior year. This increase is the result of restricted spending.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund balances, only the Water fund had an operating loss for 2005; although this fund did have positive net assets at both the beginning and end of the year. The Electric fund, while making a 43 percent improvement during 2005, had deficit net assets at both the beginning and end of the year.

In July 2005, the City implemented rate increases for all four utilities. The City increased rates for both water and sewer again in January 2006 and January 2007. These rates will be raised in January 2008 and January 2009 as well. The 8 percent electric rate increase in 2005, coupled with better monitoring and regulating the power cost adjustment, will eliminate the Electric fund's deficit over the next several years.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. This is true for expenditures as well; however, note that actual expenditures were less than budgeted amounts for all programs demonstrating the City's continued effort toward financial recovery.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2005, was \$15,409,335 and \$21,201,533, respectively (net of accumulated depreciation). This investment in capital assets includes land; buildings; improvements other than buildings; streets; bridges; water, sewer, electric, and storm water lines; equipment; and vehicles. Due to the City's fiscal status, very limited capital assets were acquired in 2005. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Debt - At December 31, 2005, the City had \$818,000 in revenue anticipation notes and \$699,166 in bond anticipation notes payable from governmental activities and \$1,000,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$3,475,000 in general obligation bonds, \$411,327 in Ohio Public Works Commission loans, and \$9,914,141 in Ohio Water Development Authority loans. In addition, the City's long-term obligations also include compensated absences, the liability for police and fire incurred when the State of Ohio established the statewide pension system, capital leases, and two long-term obligations with AMP-Ohio. For further information regarding the City's debt, refer to Notes 16, 17, and 18 to the basic financial statements.

CURRENT ISSUES

As of December 31, 2005, the City had been in fiscal emergency just under seventeen months, so the City's primary concern continues to be re-establishing positive fund balances. While the City's financial statements reflect the tremendous progress the City has made in a short period of time, the City is still unable to project when it will emerge from fiscal emergency.

During 2005, the City took advantage of a provision in Ohio Revised Code Chapter 118 which enables governmental entities in fiscal emergency to issue revenue anticipation notes in anticipation of future local government fund monies received from the State. The City issued \$818,000 in these notes which obligate the City's future distribution of these monies for ten years. However, the issuance of these notes provided much needed relief to the City's extremely tight cash flow position.

Two other significant debt related matters involve the City's issuance of \$3.5 million in general obligation bonds in December 2004. The significant point with this issue is the revenues the City has pledged for the repayment of this debt. Annually, the City receives a distribution of resources from the Freese Foundation, as outlined in the Foundation agreement. For the ten years that these bonds are outstanding, all distributions of Foundation monies have been pledged towards the repayment of this debt. As such, resources the City has allocated in prior years for park related improvements will not be available for ten years.

The other important debt action which occurred in 2006 involved the City entering into a long-term loan agreement with AMP-Ohio for \$5,225,000. The loan was obtained to retire notes previously issued for various upgrades to the electric distribution system. The loan is for twenty years and will not be fully paid until November 2024.

While the City's financial picture at the end of 2005 was certainly brighter than one year ago, it was not without sacrifices. In March 2005, the City had to layoff a number of employees, adding to those laid-off in 2004, and City employees went another year without any pay increases. All City union workers agreed to extend their labor contracts through 2006 at then current wage rates to help avoid additional layoffs. Since then, this contract was again extended through 2007 without hourly wage increases. Fortunately, with the improvement in the City's financial status, the City was able to provide a one-time bonus to all City employees in 2007 to help offset the lack of wage increases and to demonstrate the Administration's recognition of the efforts made by all City employees toward financial recovery.

Throughout 2006 and into 2007, the City continues to evaluate the need for every expenditure of funds and to maintain restricted spending. Although the City has been able to restore the positions of those employees laid-off in 2005, the City will not be able to restore staffing levels to pre-fiscal emergency levels for many years, if ever.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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

While 2005 offered many positives to the City's financial picture, the inability to determine an end to fiscal emergency makes evident the significant challenges still ahead of the City. One major obstacle for the City to resolve is how to eliminate the deficit in the Street Maintenance fund. With a cash deficit of \$808,000 at the end of 2005 and \$969,000 at the end of 2006, this is a very difficult issue for the City to resolve. The revenue sources in this fund are generally limited to motor vehicle license and gas tax monies received from the State. Additional motor vehicles license fees are levied by the City and those resources are also used for street improvement purposes. The City approved a \$10 increase in these fees (bringing the local levied amount to \$20); however, this will only generate approximately \$100,000 for the City annually beginning in 2008. This will certainly help, but will not resolve the Street Maintenance problem.

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

REQUEST FOR INFORMATION

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

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**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,084,712	\$1,630,294	\$2,715,006	\$0
Cash and Cash Equivalents with Fiscal Agent	61,891	332,284	394,175	0
Investments in Segregated Accounts	0	0	0	9,091,899
Accounts Receivable	29,331	2,481,088	2,510,419	0
Due from Other Governments	1,133,557	0	1,133,557	0
Municipal Income Taxes Receivable	1,018,293	0	1,018,293	0
Other Local Taxes Receivable	8,340	0	8,340	0
Excise Taxes Receivable	0	42,178	42,178	0
Internal Balances	489,458	(489,458)	0	0
Prepaid Items	35,271	25,365	60,636	0
Materials and Supplies Inventory	79,480	17,272	96,752	0
Property Taxes Receivable	502,086	0	502,086	0
Notes Receivable	112,799	0	112,799	0
Special Assessments Receivable	0	565,379	565,379	0
Nondepreciable Capital Assets	3,492,312	2,169,744	5,662,056	0
Depreciable Capital Assets, Net	11,917,023	19,031,789	30,948,812	0
Investment in Joint Venture	0	1,933,628	1,933,628	0
Total Assets	19,964,553	27,739,563	47,704,116	9,091,899
<u>Liabilities</u>				
Accrued Wages Payable	54,348	24,684	79,032	0
Accounts Payable	101,546	672,466	774,012	0
Due to Other Governments	246,420	83,445	329,865	0
Matured Compensated Absences Payable	91,947	0	91,947	0
Accrued Interest Payable	39,017	11,008	50,025	0
Notes Payable	1,517,166	1,000,000	2,517,166	0
Deferred Revenue	559,158	0	559,158	0
Retainage Payable	0	78,926	78,926	0
Deposits Held and Due to Others	0	206,234	206,234	0
Claims Payable	128,195	0	128,195	0
Long-Term Liabilities				0
Due Within One Year	619,894	732,673	1,352,567	0
Due in More Than One Year	3,539,084	17,582,442	21,121,526	0
Total Liabilities	6,896,775	20,391,878	27,288,653	0
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt Restricted for	11,477,511	4,664,301	16,141,812	0
Capital Projects	1,428,575	0	1,428,575	0
Debt Service	304,802	0	304,802	0
Revolving Loans	919,595	0	919,595	0
Other Purposes	530,488	0	530,488	0
Unrestricted (Deficit)	(1,593,193)	2,683,384	1,090,191	9,091,899
Total Net Assets	\$13,067,778	\$7,347,685	\$20,415,463	\$9,091,899

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,585,498	\$47,023	\$19,868	\$0
Fire	1,636,715	339,691	5,795	0
Public Health	303,451	203,419	0	8,338
Leisure Time Activities	299,882	16,380	0	0
Community Environment	88,057	0	506,892	47,885
Transportation	1,353,655	195,345	603,788	85,800
General Government	1,363,921	2,233,841	0	55,807
Interest and Fiscal Charges	265,016	0	0	0
Total Governmental Activities	6,896,195	3,035,699	1,136,343	197,830
<u>Business-Type Activities</u>				
Water	2,118,098	1,733,532	884	0
Sewer	2,004,635	1,844,514	1,551	0
Electric	10,293,623	10,758,567	50,857	0
Storm Water	151,222	368,872	0	0
Total Business-Type Activities	14,567,578	14,705,485	53,292	0
Total Primary Government	\$21,463,773	\$17,741,184	\$1,189,635	\$197,830
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$474,155	\$0	\$0	\$0
Total	\$21,937,928	\$17,741,184	\$1,189,635	\$197,830

General Revenues

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

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated (Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$1,518,607)	\$0	(\$1,518,607)	\$0
(1,291,229)	0	(1,291,229)	0
(91,694)	0	(91,694)	0
(283,502)	0	(283,502)	0
466,720	0	466,720	0
(468,722)	0	(468,722)	0
925,727	0	925,727	0
(265,016)	0	(265,016)	0
(2,526,323)	0	(2,526,323)	0
0	(383,682)	(383,682)	0
0	(158,570)	(158,570)	0
0	515,801	515,801	0
0	217,650	217,650	0
0	191,199	191,199	0
(2,526,323)	191,199	(2,335,124)	0
0	0	0	(474,155)
(2,526,323)	191,199	(2,335,124)	(474,155)
408,044	0	408,044	0
74,446	0	74,446	0
7	0	7	0
1,815,706	0	1,815,706	0
688,023	0	688,023	0
192,575	0	192,575	0
448,289	0	448,289	0
529,870	0	529,870	0
34,504	4,790	39,294	668,607
567,815	383,478	951,293	0
4,759,279	388,268	5,147,547	668,607
(117,881)	117,881	0	0
2,115,075	697,348	2,812,423	194,452
10,952,703	6,650,337	17,603,040	8,897,447
<u>\$13,067,778</u>	<u>\$7,347,685</u>	<u>\$20,415,463</u>	<u>\$9,091,899</u>

**CITY OF GALION
CRAWFORD COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	General	Other Governmental	Total Governmental Funds
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$0	\$1,015,109	\$1,015,109
Accounts Receivable	27,962	0	27,962
Due from Other Governments	322,925	810,632	1,133,557
Municipal Income Taxes Receivable	698,525	319,768	1,018,293
Other Local Taxes Receivable	0	8,340	8,340
Interfund Receivable	465,291	203,561	668,852
<u>Restricted Assets</u>			
Cash and Cash Equivalents with Fiscal Agent	61,891	0	61,891
Prepaid Items	27,781	7,490	35,271
Materials and Supplies Inventory	0	79,480	79,480
Property Taxes Receivable	424,454	77,632	502,086
Notes Receivable	0	112,799	112,799
Total Assets	<u>\$2,028,829</u>	<u>\$2,634,811</u>	<u>\$4,663,640</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accrued Wages Payable	\$38,176	\$16,172	\$54,348
Accounts Payable	40,341	53,228	93,569
Due to Other Governments	97,003	149,417	246,420
Matured Compensated Absences Payable	91,947	0	91,947
Interfund Payable	201,363	2,198	203,561
Accrued Interest Payable	20,224	0	20,224
Notes Payable	818,000	0	818,000
Deferred Revenue	1,345,222	1,141,423	2,486,645
Total Liabilities	<u>2,652,276</u>	<u>1,362,438</u>	<u>4,014,714</u>
<u>Fund Balance</u>			
Reserved for Notes Receivable	0	85,201	85,201
Reserved for Future Debt Service	61,891	0	61,891
Reserved for Encumbrances	0	719,476	719,476
<u>Unreserved, Reported in</u>			
General Fund (Deficit)	(685,338)	0	(685,338)
Special Revenue Funds (Deficit)	0	(1,106,947)	(1,106,947)
Debt Service Fund	0	320,543	320,543
Capital Projects Funds	0	1,254,100	1,254,100
Total Fund Balance (Deficit)	<u>(623,447)</u>	<u>1,272,373</u>	<u>648,926</u>
Total Liabilities and Fund Balance	<u>\$2,028,829</u>	<u>\$2,634,811</u>	<u>\$4,663,640</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Total Governmental Fund Balance	\$648,926
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Amounts reported for governmental activities on the statement of net assets are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,409,335
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Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	26,926	
Due from Other Governments	985,718	
Municipal Income Taxes Receivable	884,210	
Property Taxes Receivable	30,633	
		1,927,487

An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.

24,167

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(18,793)	
Notes Payable	(699,166)	
General Obligation Bonds Payable	(3,475,000)	
OPWC Loans Payable	(9,687)	
Compensated Absences Payable	(466,771)	
Police Pension Liability	(28,087)	
Fire Pension Liability	(106,462)	
Capital Leases Payable	(72,971)	
		(4,876,937)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.

(65,200)

Net Assets of Governmental Activities

\$13,067,778

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FFOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Other Governmental	Total Governmental Funds
<u>Revenues</u>			
Property Taxes	\$409,481	\$74,707	\$484,188
Municipal Income Taxes	1,667,330	807,517	2,474,847
Other Local Taxes	448,289	102,577	550,866
Charges for Services	2,890,424	109,148	2,999,572
Fees, Licenses, and Permits	41,645	0	41,645
Fines and Forfeitures	34,284	5,384	39,668
Intergovernmental	594,047	851,458	1,445,505
Interest	34,283	10,454	44,737
Other	134,789	435,224	570,013
Total Revenues	6,254,572	2,396,469	8,651,041
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Police	1,082,456	416,249	1,498,705
Fire	1,040,171	574,238	1,614,409
Public Health	282,566	8,200	290,766
Leisure Time Activities	0	253,191	253,191
Community Environment	0	90,255	90,255
Transportation	0	656,435	656,435
General Government	1,335,052	52,881	1,387,933
Capital Outlay	23,101	0	23,101
Debt Service:			
Principal Retirement	0	571,116	571,116
Interest and Fiscal Charges	20,224	245,612	265,836
Total Expenditures	3,783,570	2,868,177	6,651,747
Excess of Revenues Over (Under) Expenditures	2,471,002	(471,708)	1,999,294
<u>Other Financing Sources (Uses)</u>			
Transfers In	0	1,724,879	1,724,879
Transfers Out	(1,724,879)	(117,881)	(1,842,760)
Total Other Financing Sources (Uses)	(1,724,879)	1,606,998	(117,881)
Changes in Fund Balance	746,123	1,135,290	1,881,413
Fund Balance (Deficit) Beginning of Year - Restated (Note3)	(1,369,570)	137,083	(1,232,487)
Fund Balance (Deficit) End of Year	(\$623,447)	\$1,272,373	\$648,926

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Changes in Fund Balance - Total Governmental Funds \$1,881,413

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

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

Capital Outlay - Depreciable Capital Assets	102,802	
Depreciation	<u>(909,897)</u>	(807,095)

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

Property Taxes	(1,691)	
Municipal Income Taxes	221,457	
Charges for Services	(147,763)	
Intergovernmental	<u>408,190</u>	480,193

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

Notes Payable	59,584	
General Obligation Bonds Payable	400,000	
OPWC Loans Payable	19,372	
Police Pension Liability	472	
Fire Pension Liability	1,789	
Capital Leases Payable	<u>89,899</u>	571,116

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 820

Compensated absences expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 29,941

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

Interest Revenue	115	
Allocated to Activities	<u>(41,428)</u>	<u>(41,313)</u>

Change in Net Assets of Governmental Activities \$2,115,075

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>Revenues</u>				
Property Taxes	\$925,070	\$925,070	\$409,481	(\$515,589)
Municipal Income Taxes	1,784,309	1,784,309	1,773,019	(11,290)
Other Local Taxes	451,083	451,083	442,418	(8,665)
Charges for Services	695,226	2,455,086	2,461,542	6,456
Fees, Licenses, and Permits	24,000	24,000	41,645	17,645
Fines and Forfeitures	24,000	24,000	34,817	10,817
Intergovernmental	567,415	505,691	584,222	78,531
Interest	0	0	33,929	33,929
Other	1,362,368	62,229	128,768	66,539
Total Revenues	5,833,471	6,231,468	5,909,841	(321,627)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,361,915	1,313,445	1,115,297	198,148
Fire	1,317,458	1,317,458	1,050,500	266,958
Public Health	289,890	308,379	292,985	15,394
Leisure Time Activities	4,139	4,139	0	4,139
General Government	1,503,567	1,529,449	1,252,175	277,274
Capital Outlay	122,329	122,329	118,794	3,535
Total Expenditures	4,599,298	4,595,199	3,829,751	765,448
Excess of Revenues Over (Under) Expenditures	1,234,173	1,636,269	2,080,090	443,821
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	13,910	13,910	6,402	(7,508)
Transfers Out	(1,508,807)	(1,247,807)	(906,879)	340,928
Total Other Financing Sources (Uses)	(1,494,897)	(1,233,897)	(900,477)	333,420
Changes in Fund Balance	(260,724)	402,372	1,179,613	777,241
Fund Balance (Deficit) Beginning of Year	(1,502,353)	(1,502,353)	(1,502,353)	0
Prior Year Encumbrances Appropriated	165,086	165,086	165,086	0
Fund Balance (Deficit) End of Year	(\$1,597,991)	(\$934,895)	(\$157,654)	\$777,241

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2005**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Assets</u>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$34,456	\$1,016,169	\$0	\$373,435	\$1,424,060	\$69,603
Cash and Cash Equivalents with Fiscal Agent	0	0	332,284	0	332,284	0
Accounts Receivable	282,048	232,487	1,914,461	52,092	2,481,088	1,369
Excise Taxes Receivable	0	0	42,178	0	42,178	0
Interfund Receivable	1,088,071	0	0	1,088,072	2,176,143	0
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	55,683	53,621	96,930	0	206,234	0
Prepaid Items	6,223	6,762	12,268	112	25,365	0
Materials and Supplies Inventory	11,338	5,934	0	0	17,272	0
Special Assessments Receivable	10,742	17,527	0	0	28,269	0
Total Current Assets	1,488,561	1,332,500	2,398,121	1,513,711	6,732,893	70,972
<u>Non-Current Assets</u>						
Special Assessments Receivable	204,102	333,008	0	0	537,110	0
Nondepreciable Capital Assets	861,428	1,143,202	165,114	0	2,169,744	0
Depreciable Capital Assets, Net	8,145,752	4,779,589	5,451,061	655,387	19,031,789	0
Investment in Joint Venture	0	0	1,933,628	0	1,933,628	0
Total Non-Current Assets	9,211,282	6,255,799	7,549,803	655,387	23,672,271	0
Total Assets	10,699,843	7,588,299	9,947,924	2,169,098	30,405,164	70,972
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	6,828	6,766	10,363	727	24,684	0
Accounts Payable	16,733	25,628	629,042	1,063	672,466	7,977
Due to Other Governments	20,162	23,937	37,312	2,034	83,445	0
Compensated Absences Payable	23,605	26,798	63,100	3,356	116,859	0
Interfund Payable	119,026	129,297	2,381,955	11,156	2,641,434	0
Accrued Interest Payable	1,896	1,896	7,216	0	11,008	0
Notes Payable	500,000	500,000	0	0	1,000,000	0
Retainage Payable	0	0	78,926	0	78,926	0
Claims Payable	0	0	0	0	0	128,195
OPWC Loans Payable	10,555	26,907	0	0	37,462	0
OWDA Loans Payable	141,746	35,948	0	0	177,694	0
Electric Improvement Loan Payable	0	0	275,000	0	275,000	0
Capital Leases Payable	0	0	19,451	0	19,451	0
AMP Ohio Payable	0	0	106,207	0	106,207	0
Total Current Liabilities	840,551	777,177	3,608,572	18,336	5,244,636	136,172
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	103,178	142,666	129,550	0	375,394	0
Deposits Held and Due to Others	55,683	53,621	96,930	0	206,234	0
OPWC Loans Payable	175,828	188,350	0	0	364,178	0
OWDA Loans Payable	6,896,915	2,839,532	0	0	9,736,447	0
Electric Improvement Loan Payable	0	0	4,927,000	0	4,927,000	0
AMP Ohio Payable	0	0	2,179,423	0	2,179,423	0
Total Non-Current Liabilities	7,231,604	3,224,169	7,332,903	0	17,788,676	0
Total Liabilities	8,072,155	4,001,346	10,941,475	18,336	23,033,312	136,172
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	1,282,136	2,332,054	394,724	655,387	4,664,301	0
Unrestricted (Deficit)	1,345,552	1,254,899	(1,388,275)	1,495,375	2,707,551	(65,200)
Total Net Assets (Deficit)	\$2,627,688	\$3,586,953	(\$993,551)	\$2,150,762	\$7,371,852	(\$65,200)

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

(24,167)

Net assets of business-type activities

\$7,347,685

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Operating Revenues</u>						
Charges for Services	\$1,733,532	\$1,844,514	\$10,758,567	\$368,872	\$14,705,485	\$1,055,933
Other	79,504	82,520	221,431	23	383,478	85,201
Total Operating Revenues	1,813,036	1,927,034	10,979,998	368,895	15,088,963	1,141,134
<u>Operating Expenses</u>						
Salaries and Wages	403,180	479,402	633,816	24,313	1,540,711	0
Benefits	214,187	227,006	318,111	24,592	783,896	0
Contractual Services	120,389	196,975	7,654,374	6,609	7,978,347	204,449
Materials and Supplies	189,245	143,514	147,075	13,986	493,820	0
Bad Debt	8,780	2,828	60,455	0	72,063	0
Claims	0	0	0	0	0	1,002,444
Depreciation	348,150	215,735	188,678	31,865	784,428	0
Other	603,871	600,226	935,246	46,792	2,186,135	0
Total Operating Expenses	1,887,802	1,865,686	9,937,755	148,157	13,839,400	1,206,893
Operating Income (Loss)	(74,766)	61,348	1,042,243	220,738	1,249,563	(65,759)
<u>Non-Operating Revenues (Expenses)</u>						
Interest Revenue	0	0	4,790	0	4,790	115
Interest Expense	(222,997)	(131,893)	(238,327)	(2,578)	(595,795)	0
Grants	884	1,551	50,857	0	53,292	0
Loss from Joint Venture	0	0	(108,052)	0	(108,052)	0
Total Non-Operating Revenues (Expenses)	(222,113)	(130,342)	(290,732)	(2,578)	(645,765)	115
Income (Loss) before Transfers	(296,879)	(68,994)	751,511	218,160	603,798	(65,644)
Transfers In	50,325	67,556	0	0	117,881	0
Changes in Net Assets	(246,554)	(1,438)	751,511	218,160	721,679	(65,644)
Net Assets (Deficit) Beginning of Year - Restated (Note 3)	2,874,242	3,588,391	(1,745,062)	1,932,602		444
Net Assets (Deficit) End of Year	\$2,627,688	\$3,586,953	(\$993,551)	\$2,150,762		(\$65,200)

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

(24,331)

Change in net assets of business-type activities

\$697,348

See Accompanying Notes to the Basic Financial Statements

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**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$1,466,680	\$1,484,229	\$10,399,411	\$372,171	\$13,722,491	\$0
Cash Received from						
Transactions with Other Funds	0	0	0	0	0	1,055,933
Cash Received from Deposits	24,591	23,680	42,806	0	91,077	0
Cash Received from Other Revenues	79,504	82,520	221,949	23	383,996	172,105
Cash Payments for Salaries and Wages	(385,200)	(455,257)	(601,310)	(39,252)	(1,481,019)	0
Cash Payments for Benefits	(217,406)	(228,874)	(319,518)	(24,966)	(790,764)	0
Cash Payments for Contractual Services	(123,471)	(198,689)	(8,549,136)	(6,091)	(8,877,387)	(197,900)
Cash Payments for Materials and Supplies	(200,698)	(151,503)	(134,901)	(13,986)	(501,088)	0
Cash Payments for Claims	0	0	0	0	0	(1,063,596)
Cash Payments for Other Expenses	(484,845)	(470,929)	(768,450)	(35,636)	(1,759,860)	0
Cash Payments for Deposits Refunded	(23,161)	(22,303)	(40,316)	0	(85,780)	0
Net Cash Provided by (Used for) Operating Activities	<u>135,994</u>	<u>62,874</u>	<u>250,535</u>	<u>252,263</u>	<u>701,666</u>	<u>(33,458)</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Grants	884	1,551	50,857	0	53,292	0
Advances In	0	0	2,176,143	0	2,176,143	0
Advances Out	(1,088,071)	0	0	(1,088,072)	(2,176,143)	0
Net Cash Provided by (Used for) Cash Flows from Noncapital Financing Activities	<u>(1,087,187)</u>	<u>1,551</u>	<u>2,227,000</u>	<u>(1,088,072)</u>	<u>53,292</u>	<u>0</u>
<u>Cash Flows from Capital and Related Financing Activities</u>						
Principal Paid on Bond Anticipation Notes	0	0	(5,500,000)	0	(5,500,000)	0
Principal Paid on OPWC Loans	(10,555)	(26,907)	0	0	(37,462)	0
Principal Paid on OWDA Loans	(115,446)	(3,662)	0	0	(119,108)	0
Principal Paid on Electric Improvement Loan	0	0	(23,000)	0	(23,000)	0
Principal Paid on Capital Leases	(6,357)	(6,357)	(21,670)	(44,835)	(79,219)	0
Interest Paid on Bond Anticipation Notes	0	0	(236,059)	0	(236,059)	0
Interest Paid on OWDA Loans	(184,900)	(84,478)	0	0	(269,378)	0
Interest Paid on Electric Improvement Loan	0	0	(22,163)	0	(22,163)	0
Interest Paid on Capital Leases	(302)	(302)	(2,397)	(2,578)	(5,579)	0
OWDA Loans Issued	170,424	83,012	0	0	253,436	0
Electric Improvement Loan Issued	0	0	5,225,000	0	5,225,000	0
Net Cash Used for Capital and Related Financing Activities	<u>(147,136)</u>	<u>(38,694)</u>	<u>(580,289)</u>	<u>(47,413)</u>	<u>(813,532)</u>	<u>0</u>
<u>Cash Flows from Investing Activities</u>						
Interest	0	0	4,790	0	4,790	115
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,098,329)</u>	<u>25,731</u>	<u>1,902,036</u>	<u>(883,222)</u>	<u>(53,784)</u>	<u>(33,343)</u>
Cash and Cash Equivalents (Deficit) Beginning of Year	<u>1,188,468</u>	<u>1,044,059</u>	<u>(1,472,822)</u>	<u>1,256,657</u>	<u>2,016,362</u>	<u>102,946</u>
Cash and Cash Equivalents (Deficit) End of Year	<u><u>\$90,139</u></u>	<u><u>\$1,069,790</u></u>	<u><u>\$429,214</u></u>	<u><u>\$373,435</u></u>	<u><u>\$1,962,578</u></u>	<u><u>\$69,603</u></u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Operating Income (Loss)	(\$74,766)	\$61,348	\$1,042,243	\$220,738	\$1,249,563	(\$65,759)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Allowance for Uncollectibles	8,780	2,828	60,455	(89)	71,974	0
Depreciation	348,150	215,735	188,678	31,865	784,428	0
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(52,008)	(9,750)	(359,913)	3,388	(418,283)	86,904
Increase in Excise Taxes Receivable	0	0	(6,027)	0	(6,027)	0
Decrease in Interfund Receivable	0	0	1,275	0	1,275	0
Increase in Prepaid Items	(4,270)	(3,986)	(4,789)	(112)	(13,157)	0
Increase in Materials and Supplies Inventory	(11,338)	(5,934)	0	0	(17,272)	0
Increase in Special Assessments Receivable	(214,844)	(350,535)	0	0	(565,379)	0
Increase (Decrease) in Accrued Wages Payable	643	(423)	131	(375)	(24)	0
Increase (Decrease) in Accounts Payable	3,921	2,265	(767,542)	630	(760,726)	6,549
Decrease in Contracts Payable	0	0	(6,674)	0	(6,674)	0
Decrease in Due to Other Governments	(6,067)	(3,916)	(3,007)	(374)	(13,364)	0
Increase (Decrease) in Compensated Absences Payable	17,337	24,568	32,375	(14,564)	59,716	0
Increase in Interfund Payable	119,026	129,297	172,667	11,156	432,146	0
Increase in Deposits Held and Due to Others	1,430	1,377	2,490	0	5,297	0
Decrease in Claims Payable	0	0	0	0	0	(61,152)
Decrease in AMP Ohio Payable	0	0	(101,827)	0	(101,827)	0
Net Cash Provided by (Used for) Operating Activities	\$135,994	\$62,874	\$250,535	\$252,263	\$701,666	(\$33,458)

See Accompanying Notes to the Basic Financial Statements

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**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

A. The City

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

The City operates under a council and full-time city manager form of government. Services provided include police protection, fire protection, ambulance, health, parks and recreation, airport facilities, street maintenance and repair, and water, sewer, electric, and storm water services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by City Council through the budgetary process and by the City Manager through administrative and managerial procedures (See Note 25).

B. Reporting Entity

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

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

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

Discretely Presented Component Unit

The component unit column on the financial statements identifies the financial data of the City's component unit, the Egbert M. Freese Foundation. It is reported separately to emphasize that it is legally separate from the City. Information about this component unit is presented in Note 20 to the basic financial statements.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

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

Egbert M. Freese Foundation The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2005, the City received \$350,000 from the Foundation. The Foundation is a component unit of the City since the nature and significance of the Foundation's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation does not issue separate financial statements. Information on the Foundation may be obtained from the Law Offices of Hottenroth, Garverick, Tilson & Co., L.P.A., 126 South Market Street, P.O. Box 477, Galion, Ohio 44833.

The City of Galion participates in two joint ventures, a jointly governed organization, an insurance pool, and a related organization. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1), the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), the Galion/Polk Township Community Improvement Corporation, the Ohio Association of Rural Water Workers' Compensation Group Rating Plan, and the Galion Public Library. These organizations are presented in Notes 21, 22, 23, and 24 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

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

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

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

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

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

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes for which there was an enforceable legal claim at December 31, 2005, but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During fiscal year 2005, the City invested in mutual funds. The mutual funds are reported at fair value, which is based on current share price.

Interest earnings are allocated to City funds according to State statutes, City charter, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2005 was \$34,283, which includes \$33,865 assigned from other City funds.

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

G. Restricted Assets

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

Restricted assets represent certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources.

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Inventory

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Capital Assets

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

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

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

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

K. Interfund Receivables/Payables

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Compensated Absences

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

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

The entire compensated absences liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for maintenance and repair of streets and highways, recreation, police and fire department activities, and airport facilities. As of December 31, 2005, the City did not have any net assets restricted by enabling legislation. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Fund Balance Reserves

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

P. Operating Revenues and Expenses

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

Q. Interfund Transactions

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

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

R. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

For the year ended December 31, 2005, the City of Galion has presented for the first time basic financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from the cash basis of accounting to government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds.

This change required that certain adjustments be recorded to the January 1, 2005, fund balances/net assets as previously recorded to reflect the prior year's effect of adopting these new accounting principles.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The transition from cash fund balance for governmental funds is as follows:

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash Fund Balance (Deficit) at December 31, 2004	(\$1,337,267)	\$164,699	(\$1,172,568)
Basis of Accounting Adjustments:			
Cash and Cash Equivalents	10,838	0	10,838
Accounts Receivable	189,954	1,800	191,754
Due From Other Governments	344,992	350,134	695,126
Municipal Income Taxes Receivable	655,838	324,609	980,447
Other Local Taxes Receivable	0	7,092	7,092
Interfund Receivable	33,145	0	33,145
Prepaid Items	28,082	7,275	35,357
Property Taxes Receivable	434,311	79,302	513,613
Notes Receivable	0	27,570	27,570
Accrued Wages Payable	(40,651)	(13,797)	(54,448)
Accounts Payable	(60,407)	(26,041)	(86,448)
Contracts Payable	(80,713)	0	(80,713)
Matured Compensated Absences Payable	(10,030)	0	(10,030)
Due to Other Governments	(120,232)	(170,447)	(290,679)
Interfund Payable	0	(1,275)	(1,275)
Deferred Revenue	(1,402,450)	(613,838)	(2,016,288)
Retainage Payable	(14,980)	0	(14,980)
Fund Balance (Deficit) at December 31, 2004	<u>(\$1,369,570)</u>	<u>\$137,083</u>	<u>(\$1,232,487)</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The transition from governmental fund balance to net assets of governmental activities is as follows:

	General Fund	Other Governmental Funds	Total Governmental Activities
Fund Balance (Deficit) at December 31, 2004	(\$1,369,570)	\$137,083	(\$1,232,487)
GASB Statement No. 34 Adjustments:			
Accounts Receivable			174,689
Due From Other Governments			577,528
Municipal Income Taxes Receivable			662,753
Property Taxes Receivable			32,324
Capital Assets			16,216,430
Accrued Interest Payable			(19,613)
Notes Payable			(758,750)
General Obligation Bonds Payable			(3,875,000)
OPWC Loans Payable			(29,059)
Compensated Absences Payable			(496,712)
Police Pension Liability			(28,559)
Fire Pension Liability			(108,251)
Capital Leases Payable			(162,870)
Internal Service Fund - Internal Balance			(164)
Internal Service Fund - Governmental Portion			444
Governmental Activities Net Asset at December 31, 2004			\$10,952,703

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS (continued)

The transition from cash fund balance to net assets of business-type activities and the internal service fund is as follows:

	Water Fund	Sewer Fund	Electric Fund	Storm Water Fund	Total Business-Type Activities	Internal Service Fund
Cash Fund Balance at December 31, 2004	\$1,188,073	\$1,043,733	(\$1,801,547)	\$1,256,606	\$1,686,865	\$102,832
GASB Statement No. 34 Adjustments:						
Cash and Cash Equivalents	395	326	1,231	51	2,003	114
Cash and Cash Equivalents with Fiscal Agent	0	0	327,494	0	327,494	0
Accounts Receivable	238,820	225,565	1,615,003	55,391	2,134,779	88,273
Excise Taxes Receivable	0	0	36,151	0	36,151	0
Interfund Receivable	0	0	1,275	0	1,275	0
Prepaid Items	1,953	2,776	7,479	0	12,208	0
Capital Assets	9,355,330	6,138,526	5,804,853	687,252	21,985,961	0
Investment in Joint Venture	0	0	2,041,680	0	2,041,680	0
Accrued Wages Payable	(6,185)	(7,189)	(10,232)	(1,102)	(24,708)	0
Accounts Payable	(12,812)	(23,363)	(1,396,584)	(433)	(1,433,192)	(1,428)
Contracts Payable	0	0	(6,674)	0	(6,674)	0
Due to Other Governments	(26,229)	(27,853)	(40,319)	(2,408)	(96,809)	0
Interfund Payable	0	0	(33,145)	0	(33,145)	0
Accrued Interest Payable	(1,896)	(1,896)	(29,508)	0	(33,300)	0
Notes Payable	(500,000)	(500,000)	(5,500,000)	0	(6,500,000)	0
Retainage Payable	0	0	(78,926)	0	(78,926)	0
Deposits Held and Due to Others	(54,253)	(52,244)	(94,440)	0	(200,937)	0
Claims Payable	0	0	0	0	0	(189,347)
OPWC Loans Payable	(196,938)	(242,164)	0	0	(439,102)	0
OWDA Loans Payable	(6,996,213)	(2,816,573)	0	0	(9,812,786)	0
Compensated Absences Payable	(109,446)	(144,896)	(160,275)	(17,920)	(432,537)	0
Capital Leases Payable	(6,357)	(6,357)	(41,121)	(44,835)	(98,670)	0
AMP Ohio Payable	0	0	(2,387,457)	0	(2,387,457)	0
Internal Service Fund - Internal Balance	0	0	0	0	164	0
Net Assets at December 31, 2004	<u>\$2,874,242</u>	<u>\$3,588,391</u>	<u>(\$1,745,062)</u>	<u>\$1,932,602</u>	<u>\$6,650,337</u>	<u>\$444</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2005, the following funds had deficit fund balances/net assets:

<u>Fund</u>	<u>Deficit</u>
General Fund	\$623,447
Nonmajor Special Revenue Funds	
Street Maintenance	741,009
Permissive MVL	252,417
Police Pension	42,409
Fire Pension	65,342
Nonmajor Debt Service Fund	
Cheshire Special Assessment	71,806
Nonmajor Capital Projects Fund	
Main Street Grant	36,921
Enterprise Fund	
Electric	993,551
Internal Service Fund	
Self-Insurance	65,200

The deficit fund balances in the General Fund, the special revenue funds, the debt service fund, and the capital projects fund resulted from adjustments for accrued liabilities. In addition, the General Fund, and the Street Maintenance and Permissive MVL special revenue funds had expenditures in excess of revenues for a number of previous years contributing to the current deficit.

The deficit net assets in the Electric enterprise fund is due to expenses exceeding revenues for a number of years. The City has increased electric rates. This increase will alleviate the deficit balance.

The deficit net assets in the Self Insurance internal service fund is due to claims expenses exceeding premiums charged for insurance coverage. In 2006, the City changed to a health savings account insurance program and modified the rates charged to employees. The City will continue to monitor the health care program to determine if further changes are needed to alleviate the deficit balance.

B. Compliance

The City's budgetary activity has amounts that ordinarily would result in noncompliance citations under Ohio Revised Code Chapter 5705. However, because the City is in fiscal emergency, its financial operations fall under the guidelines of Chapter 118. Therefore, citations related to Chapter 5705 are presented only for items that do not conflict with Chapter 118. The City did not always certify that the amount required to meet a contract or expenditure was lawfully appropriated and in the treasury, as required by ORC 5705.41D.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Changes in Fund Balance

	<u>General</u>
GAAP Basis	\$746,123
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2004, Received in Cash 2005	343,495
Accrued 2005, Not Yet Received in Cash	(681,640)
Expenditure Accruals:	
Accrued 2004, Paid in Cash 2005	(414,718)
Accrued 2005, Not Yet Paid in Cash	375,396
Cash Adjustments:	
Unrecorded Activity 2004	10,838
Unrecorded Activity 2005	(9,982)
Prepaid Items	301
Transfer Out	818,000
Encumbrances Outstanding at Year End (Budget Basis)	<u>(8,200)</u>
Budget Basis	<u>\$1,179,613</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

7. The State Treasurer's investment pool (STAR Ohio).

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

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,587,751 of the City's bank balance of \$2,796,605 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2005, the City's investments consisted of mutual funds, with a fair value of \$61,891 and an average maturity of 60 days. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that mutual funds consist of obligations listed in items (1) or (2) on page 45.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 - RECEIVABLES

Receivables at December 31, 2005, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for notes receivable, special assessments, and the allowance for uncollectibles related to utility services. Notes receivable, in the amount of \$85,201, will not be received within one year. Special assessments, in the amount of \$537,110, will not be received within one year. At December 31, 2005, the City did not have any delinquent special assessments.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$323,165	\$268,923	\$2,203,031	\$60,443	\$2,855,562
Less Allowance for Uncollectibles	(41,117)	(36,436)	(288,570)	(8,351)	(374,474)
Net Accounts Receivable	<u>\$282,048</u>	<u>\$232,487</u>	<u>\$1,914,461</u>	<u>\$52,092</u>	<u>\$2,481,088</u>

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant. The notes have an annual interest rate of 3 to 5.75 percent and are paid over a period of 7 years.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$22,216
Local Government	125,608
Local Government Revenue Assistance	47,869
Beer and Liquor Permits	162
Cigarette Taxes	297
Estate Taxes	96,702
Fines and Forfeitures	2,015
Victims of Crime	11,416
City of Crestline	16,640
Total General Fund	<u>322,925</u>
Total Major Funds	<u>322,925</u>
	(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds	
Police Drug	
Crawford County	\$135
Street Maintenance	
Gasoline Tax	149,523
Motor Vehicle License Tax	117,294
Total Street Maintenance	266,817
State Highway	
Gasoline Tax	12,124
Motor Vehicle License Tax	15,235
Total State Highway	27,359
Revolving Loan	
Fellner	5,612
Crawford Machine	498,573
Total Revolving Loan	504,185
Police Pension	
Homestead and Rollback	2,029
Fire Pension	
Homestead and Rollback	2,029
CDGB	
CDBG	8,078
Total Nonmajor Funds	810,632
Total Governmental Activities	\$1,133,557

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a two-thirds credit for tax paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

The City's income tax rate includes 1 percent authorized by State statutes and levied by the City Council; .39 percent to be used exclusively for increased police and fire protection services, fire suppression equipment and structures, and an ambulance subsidy, and .11 percent to be used exclusively for recreation purposes and the acquisition of real estate for recreation.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 8 - MUNICIPAL INCOME TAXES (continued)

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2005, and for which there was an enforceable legal claim. In governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable is deferred.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 - PROPERTY TAXES (continued)

The full tax rate for all City operations for the year ended December 31, 2005, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$522,920
Residential	95,414,310
Commercial	18,363,460
Industrial	7,200,830
Public Utility Property	
Real	28,690
Personal	2,130,150
Tangible Personal Property	14,495,414
Total Assessed Value	\$138,155,774

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,492,312	\$0	\$0	\$3,492,312
Depreciable Capital Assets				
Buildings	854,500	0	0	854,500
Improvements Other Than Buildings	38,300	0	0	38,300
Streets	18,324,044	102,802	0	18,426,846
Bridges	1,236,330	0	0	1,236,330
Equipment	416,238	0	0	416,238
Vehicles	1,887,549	0	0	1,887,549
Total Depreciable Capital Assets	22,756,961	102,802	0	22,859,763

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Governmental Activities:				
Less Accumulated Depreciation for				
Buildings	(\$283,397)	(\$16,940)	\$0	(\$300,337)
Improvements Other Than Buildings	(21,448)	(1,532)	0	(22,980)
Streets	(8,439,451)	(729,216)	0	(9,168,667)
Bridges	(400,635)	(24,727)	0	(425,362)
Equipment	(183,397)	(26,567)	0	(209,964)
Vehicles	(704,515)	(110,915)	0	(815,430)
Total Accumulated Depreciation	<u>(10,032,843)</u>	<u>(909,897)</u>	<u>0</u>	<u>(10,942,740)</u>
Total Depreciable Capital Assets, Net	<u>12,724,118</u>	<u>(807,095)</u>	<u>0</u>	<u>11,917,023</u>
Governmental Activities Capital Assets, Net	<u>\$16,216,430</u>	<u>(\$807,095)</u>	<u>\$0</u>	<u>\$15,409,335</u>
	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	<u>\$2,169,744</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,169,744</u>
Depreciable Capital Assets				
Buildings	12,830,059	0	0	12,830,059
Improvements Other Than Buildings	6,478,200	0	0	6,478,200
Water, Sewer, Electric, and Storm Water Lines	8,336,227	0	0	8,336,227
Equipment	2,067,233	0	0	2,067,233
Vehicles	1,233,210	0	0	1,233,210
Total Depreciable Capital Assets	<u>30,944,929</u>	<u>0</u>	<u>0</u>	<u>30,944,929</u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Business-Type Activities:				
Less Accumulated Depreciation for				
Buildings	(\$5,819,079)	(\$371,943)	\$0	(\$6,191,022)
Improvements Other Than Buildings	(1,379,026)	(113,481)	0	(1,492,507)
Water, Sewer, Electric, and Storm Water Lines	(2,243,369)	(158,628)	0	(2,401,997)
Equipment	(1,015,598)	(65,141)	0	(1,080,739)
Vehicles	(671,640)	(75,235)	0	(746,875)
Total Accumulated Depreciation	<u>(11,128,712)</u>	<u>(784,428)</u>	<u>0</u>	<u>(11,913,140)</u>
Total Depreciable Capital Assets, Net	<u>19,816,217</u>	<u>(784,428)</u>	<u>0</u>	<u>19,031,789</u>
Business-Type Activities Capital Assets, Net	<u>\$21,985,961</u>	<u>(\$784,428)</u>	<u>\$0</u>	<u>\$21,201,533</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$16,670
Security of Persons and Property - Fire	62,318
Public Health	2,331
Leisure Time Activities	27,228
Transportation	798,738
General Government	2,612
Total Depreciation Expense - Governmental Activities	<u>\$909,897</u>

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2005, the General Fund had an interfund receivable, in the amount of \$465,291; \$119,026 from the Water enterprise fund, \$129,297 from the Sewer enterprise fund, \$205,812 from the Electric enterprise fund, and \$11,156 from the Storm Water enterprise fund for services provided to those funds.

At December 31, 2005, other governmental funds had an interfund receivable in the amount of \$203,561, \$2,198 for a short-term loan to other governmental funds and \$201,363 to the General Fund to alleviate a deficit cash balance.

At December 31, 2005, the Water and Sewer enterprise funds had an interfund receivable, in the amount of \$1,088,071 and \$1,088,072, respectively, from the Electric enterprise fund to alleviate a deficit cash balance.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with Arch Insurance Company and Travelers Property Casualty Company of America for the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$11,942,329	\$0
Earthquake	500,000	25,000
General Liability		
Per Occurrence	1,000,000	0
Aggregate	3,000,000	0
Employee Benefits Liability		
Each Employee Limit	1,000,000	1,000
Aggregate	3,000,000	1,000
Stop Gap Liability	1,000,000	0
Public Officials Liability	1,000,000	1,000
Law Enforcement Liability	1,000,000	5,000
Automobile Liability	1,000,000	1,000
Commercial Umbrella	5,000,000	1,000
Crime Coverage	250,000	250
Boiler and Machinery	3,242,955	0

There has been no significant reduction in insurance coverage from 2004, and no insurance settlement has exceeded insurance coverage during the last three years.

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - RISK MANAGEMENT (continued)

The changes in the claims liability for 2005 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2005	\$189,347	\$1,002,444	\$1,063,596	\$128,195

For 2005, the City participated in the Ohio Rural Water Association Workers' Compensation Group Rating Plan (Plan), an insurance pool. The Plan is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan. To maximize the number of participants in the Plan, the Plan's executive committee annually calculates the total savings which accrued to the Plan through its formation. This savings is then compared to the overall savings percentage of the Plan. The Plan's executive committee then collects rate contributions from or pays rate equalization rebates to the various participants. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

The City may withdraw from the plan if written notice is provided sixty days prior to the prescribed application deadline to the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Plan prior to withdrawal, and any participant leaving the Plan allows representatives of the Plan to access loss experience for three years following the last year of participation.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2005, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 was \$254,167, \$289,037, and \$295,283, respectively; 80 percent has been contributed for 2005 and 100 percent has been contributed for 2004 and 2003. The unpaid contribution for 2005, in the amount of \$50,921, is recorded as a liability. There were no contributions to the member-directed plan for 2005 made by the City or made by plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contribution to the OPF for the years ended December 31, 2005, 2004, and 2003 was \$221,149, \$241,645, and \$261,420, respectively; 65 percent has been contributed for 2005 and 100 percent has been contributed for 2004 and 2003. The unpaid contribution for 2005, in the amount of \$76,445, is recorded as a liability.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$106,458. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2005, was \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

In September 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OPF) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll and for firefighters is 24 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$53,858 for police and \$66,528 for firefighters. The OPF's total health care expense for the year ended December 31, 2005, was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OPF participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

NOTE 15 - COMPENSATED ABSENCES

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

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

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

NOTE 16 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2005, were as follows:

	<u>Interest Rate</u>	<u>Balance December 31, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>
<u>Governmental Activities</u>					
<u>Revenue Anticipation Notes</u>					
General Fund					
2005 Local Government Fund Note	5.875%	\$0	\$818,000	\$0	\$818,000

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 16 - NOTES PAYABLE (continued)

	<u>Interest Rate</u>	<u>Balance December 31, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Special Revenue Funds					
2004 Airport Note	4.55%	\$111,250	\$0	\$8,750	\$102,500
2004 Recreation Note	4.55	257,500	0	17,500	240,000
2004 Fire Truck Note	4.55	40,000	0	10,000	30,000
2004 Street Improvement Note	4.55	350,000	0	23,334	326,666
Total General Obligation Bond Anticipation Notes		<u>758,750</u>	<u>0</u>	<u>59,584</u>	<u>699,166</u>
Total Governmental Activities		<u>\$758,750</u>	<u>\$818,000</u>	<u>\$59,584</u>	<u>\$1,517,166</u>
 <u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Funds					
2004 Cheshire Improvement Note	4.55%	\$1,000,000	\$0	\$0	\$1,000,000
2004 Electric Improvement Note	variable	5,500,000	0	5,500,000	0
Total Business-Type Activities		<u>\$6,500,000</u>	<u>\$0</u>	<u>\$5,500,000</u>	<u>\$1,000,000</u>

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

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

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

The bond anticipation notes in the enterprise funds, in the amount of \$1,000,000, were issued on June 3, 2004, to pay for various water and sewer improvements in the Cheshire Subdivision. The notes were paid in full in February 2007, and were paid from the Water and Sewer enterprise funds in equal amounts. The \$5,500,000 electric improvement note was retired in 2005 with the proceeds of a \$5,225,000 loan from AMP-Ohio and a \$275,000 principal payment made by the City. These notes were issued for various upgrades to the electric distribution system.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 16 - NOTES PAYABLE (continued)

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

Year	Revenue Anticipation Notes		General Obligation Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2006	\$83,000	\$40,448	\$59,584	\$31,646
2007	87,000	43,181	639,582	7,952
2008	93,000	38,070	0	0
2009	98,000	32,606	0	0
2010	104,000	26,849	0	0
2011-2013	353,000	42,300	0	0
	<u>\$818,000</u>	<u>\$223,454</u>	<u>\$699,166</u>	<u>\$39,598</u>

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1990 Library						
(Original Amount \$800,000)	7.25-7.75%	\$375,000	\$0	\$50,000	\$325,000	\$55,000
2004 Various Purpose						
(Original Amount \$3,500,000)	5.00	3,500,000	0	350,000	3,150,000	350,000
Total General Obligation Bonds		<u>3,875,000</u>	<u>0</u>	<u>400,000</u>	<u>3,475,000</u>	<u>405,000</u>
Other Long-Term Obligations						
OPWC Loans						
1996 South Boston						
(Original Amount \$193,724)	0.00	29,059	0	19,372	9,687	9,687
Compensated Absences Payable		496,712	9,473	39,414	466,771	129,878
Police Pension Liability		28,559	0	472	28,087	492
Fire Pension Liability		108,251	0	1,789	106,462	1,866
Capital Leases Payable		162,870	0	89,899	72,971	72,971
Total Other Long-Term Obligations		<u>825,451</u>	<u>9,473</u>	<u>150,946</u>	<u>683,978</u>	<u>214,894</u>
Total Governmental Activities		<u>\$4,700,451</u>	<u>\$9,473</u>	<u>\$550,946</u>	<u>\$4,158,978</u>	<u>\$619,894</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Business-Type Activities</u>						
Other Long-Term Obligations						
OPWC Loans						
Railroad Street Waterline (Original Amount \$71,104)	0.00%	\$60,438	\$0	\$3,555	\$56,883	\$3,555
West End Waterline (Original Amount \$140,000)	0.00	136,500	0	7,000	129,500	7,000
Cherry Street Sewer (Original Amount \$541,829)	0.00	242,164	0	26,907	215,257	26,907
Total OPWC Loans		439,102	0	37,462	401,640	37,462
OWDA Loans						
#2735 Raw Water Line (Original Amount \$480,881)	2.00	352,022	0	17,590	334,432	17,942
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	3,679,508	0	101,518	3,577,990	103,558
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	983,863	0	32,973	950,890	34,298
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,540,327	59,926	0	1,600,253	0
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,185,940	46,172	0	1,232,112	21,896
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	2,071,126	147,338	0	2,218,464	0
Total OWDA Loans		9,812,786	253,436	152,081	9,914,141	177,694
Electric Improvement Loan (Original Amount \$5,225,000)	7.00	0	5,225,000	23,000	5,202,000	275,000
Compensated Absences Payable		432,537	105,025	45,309	492,253	116,859
Capital Leases Payable		98,670	0	79,219	19,451	19,451
AMP Ohio Payable - JV 2		2,387,457	0	101,827	2,285,630	106,207
Total Business-Type Activities		\$13,170,552	\$5,583,461	\$438,898	\$18,315,115	\$732,673

1990 Library General Obligation Bonds

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

2004 Various Purpose General Obligation Bonds

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

OPWC Loans

OPWC loans consist of monies owed to the Ohio Public Works Commission for street improvements, replacement of waterlines, and upgrades to the City's sewer treatment plant. The loans are interest free. The loans will be repaid from the Street Maintenance special revenue fund and the Water and Sewer enterprise funds.

OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for the improvements to water and sewer lines and upgrades to the City's water treatment plant. OWDA loans are payable solely from the gross revenues of the Water and Sewer enterprise funds.

Electric Improvement Loan

On November 15, 2005, the City entered into a long-term loan agreement with AMP-Ohio for \$5,225,000. The loan was obtained to retire notes previously issued for various upgrades to the electric distribution system. The loan is for a twenty-year period and will be fully retired in November 2024. The loan will be repaid from the gross revenues of the Electric enterprise fund.

Compensated Absences Payable

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

Police and Fire Pension Liability

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

Capital Leases Payable

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

AMP Ohio Payable - JV2

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

The City's legal debt margin was \$10,332,190 at December 31, 2005.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

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

	Governmental Activities				
	General Obligation Bonds		OPWC Loan	Police and Fire Pension	
	Principal	Interest	Principal	Principal	Interest
2006	\$405,000	\$182,688	\$9,687	\$2,358	\$5,694
2007	410,000	160,925	0	2,459	5,593
2008	415,000	139,111	0	2,565	5,486
2009	420,000	116,238	0	2,674	5,377
2010	425,000	93,313	0	2,789	5,262
2011-2015	1,400,000	175,144	0	15,853	24,404
2016-2020	0	0	0	19,563	20,622
2021-2025	0	0	0	24,138	16,119
2026-2030	0	0	0	29,789	10,470
2031-2035	0	0	0	32,361	3,505
	\$3,475,000	\$867,419	\$9,687	\$134,549	\$102,532

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

	Business-Type Activities		
	OPWC Loans	OWDA Loans	
	Principal	Principal	Interest
2006	\$37,462	\$177,694	\$164,065
2007	37,462	182,394	159,366
2008	37,462	187,235	154,524
2009	37,462	192,216	149,545
2010	37,462	197,348	144,412
2011-2015	133,498	1,069,319	639,481
2016-2020	52,776	1,223,108	485,690
2021-2025	28,056	1,228,083	310,386
2026-2030	0	1,063,490	163,124
2031-2032	0	574,537	40,965
	\$401,640	\$6,095,424	\$2,411,558

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Year	Electric Improvement Loan		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2006	\$275,000	\$355,280	\$106,207	\$112,932
2007	275,000	336,030	110,586	108,684
2008	275,000	317,663	116,061	103,154
2009	275,000	297,530	121,809	97,351
2010	275,000	278,280	127,831	91,261
2011-2015	1,375,000	1,103,321	747,551	348,237
2016-2020	1,375,000	622,111	955,585	140,284
2021-2024	1,077,000	150,658	0	0
	<u>\$5,202,000</u>	<u>\$3,460,873</u>	<u>\$2,285,630</u>	<u>\$1,001,903</u>

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. Principal payments in 2005 were \$89,899 for governmental funds and \$79,219 for enterprise funds.

	Governmental Activities	Business-Type Activities
Depreciable Capital Assets		
Equipment	\$33,663	\$24,852
Vehicles	247,408	278,600
Total Depreciable Capital Assets	<u>281,071</u>	<u>303,452</u>
Less Accumulated Depreciation for		
Equipment	(6,732)	(3,312)
Vehicles	(49,482)	(74,296)
Total Accumulated Depreciation	<u>(56,214)</u>	<u>(77,608)</u>
Total	<u>\$224,857</u>	<u>\$225,844</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	<u>\$72,971</u>	<u>\$4,254</u>	<u>\$19,451</u>	<u>\$20,585</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 19 - INTERFUND TRANSFERS

During 2005, the General Fund made transfers to other governmental funds, in the amount of \$1,724,879; \$739,071 to subsidize various programs in other funds and \$985,808 to move receipts as debt payments came due.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$50,325 and \$67,556, to move receipts as debt payments became due.

NOTE 20 - EGBERT M. FREESE FOUNDATION

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

The Foundation does not prepare financial statements. The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2005, the Foundation's investments consisted of the following:

	Fair Value
Equities	\$5,460,966
Fixed Income	3,091,544
Cash Equivalents	539,379
Other Assets	10
	<u>\$9,091,899</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 21 - JOINT VENTURES

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

The City is a participant, with twenty other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$12,064 to the joint venture in 2005 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the Joint Venture participants are billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$29,740 at December 31, 2005. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

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

The City is a participant, with thirty-five other subdivisions within the State of Ohio, in a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture (JV2). The City is both a financing participant and an owner participant with percentages of liability and ownership of 5.47 percent and 4.29 percent, respectively. Owner participants own undivided interests, as tenants in common, in JV2 in the amount of their respective project shares. Purchaser participants agree to purchase the output associated with their respective project shares, ownership of which is held in trust for such purchaser participants.

In accordance with the JV2 Agreement (Agreement), the participants jointly undertook (as either financing participants or non-financing participants and as either owner participants or purchaser participants) the acquisition, construction, and equipping of JV2, including such portions of JV2 as have been acquired, constructed, or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of operation and maintenance expenses of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes, or other indebtedness payable from any revenues of the system. Under the terms of the Agreement, each financing participant is to fix, charge, and collect rates, fees, and charges at least sufficient enough to maintain a debt coverage ratio equal to 110 percent of the sum of JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, the City met its debt coverage obligation.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 21 - JOINT VENTURES (continued)

JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The project consists of 138.65 MW of distributed generation (of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. The City's net obligation for these bonds at December 31, 2005, was \$2,285,630 (including amounts held in the bond fund, previous billings to members, interest payable, and debt service paid and collected). The City's investment and its share of the operating results of JV2 are reported in the City's Electric enterprise fund. The City's investment in JV2 was \$1,903,888 at December 31, 2005. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

NOTE 22 - JOINTLY GOVERNED ORGANIZATION

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

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

NOTE 23 - INSURANCE POOL

The City participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Rural Water Association Workers' Compensation Plan is an insurance purchasing pool. A group executive committee is responsible for calculating annual rate contributions and rebates, approving the selection of a third party administrator, reviewing and approving proposed third party fees, fees for risk management services and general management fees, determining ongoing eligibility of each participant, and performing any other acts and functions which may be delegated to it by the participating members. Financial information may be obtained from the Ohio Rural Water Association Workers' Compensation Plan, 975 Linden Avenue, Zanesville, Ohio 43701.

NOTE 24 - RELATED ORGANIZATION

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 25 - FISCAL EMERGENCY

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

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

The more significant steps taken by the City to alleviate the fiscal emergency conditions include staff reductions, spending cuts, an additional .5 percent income tax for police and fire operations, increased utility rates for electric, water, and sewer, and local government fund borrowing (a provision of Section 118.07 of the Ohio Revised Code). As of December 31, 2005, the City has not eliminated all of the fiscal emergency conditions and is currently unable to identify a date by which these conditions will be eliminated.

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

NOTE 26 - CONTINGENT LIABILITIES

A. Litigation

The City of Galion is a party to several legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. 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.

B. Federal and State Grants

For the period January 1, 2005, to December 31, 2005, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 27 - SUBSEQUENT EVENTS

On January 18, 2006, the City entered into a five-year lease for a street sweeper, in the amount of \$146,381.

On February 7, 2006, the voters approved an additional .5 percent income tax for police and fire pension operations. The tax was effective on July 1, 2006.

On May 23, 2006, the City issued \$169,980 in general obligation bonds to purchase two dump trucks. The bonds have an interest rate of 4.25 percent and mature on December 1, 2011.



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2007, wherein we noted the City has presented for the first time basic financial statements in accordance with generally accepted accounting principles. Additionally, the City was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor. Furthermore, the financial statements of the Freese Foundation Component Unit, the City's discretely presented component unit, have not been audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine 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 reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-003 through 2005-005.

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable conditions 2005-003 and 2005-004 listed above to be material weaknesses. In a separate letter to the City's management dated August 22, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the City's management dated August 22, 2007, we reported other matters related to noncompliance we deemed immaterial.

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



Mary Taylor, CPA
Auditor of State

August 22, 2007

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005-001
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**Finding Repaid Under Audit
Personal Leave**

Per Article 18, Section 18.1 of the IAFF agreement under which Mr. Gipson is subject, a bargaining unit employee shall be permitted up to 48 hours of personal leave per calendar year. If an employee is unable, due to work requirements, to receive his personal leave by year end, he shall submit and receive payment for any unused personal leave.

Based on employee timesheets and 'Request for Leave Applications' which are signed by the Department Supervisor, Robert Gipson used 38 hours of personal leave in 2005. On December 24, 2005, the City wrote a payroll check in the amount of \$2,556.29 to Mr. Gipson. Included in the \$2,556.29 was \$225.36 for 18 hours of unused personal leave that were cashed in. In total, Mr. Gipson used or cashed in a total of 56 hours of personal leave. A review of the employee's timesheets and 'Monthly Benefits Hours Summary' revealed 8 hours of personal leave taken that was not recorded in the payroll system. This led to Mr. Gipson being paid for more than the maximum of 48 hours of personal leave. Per the 'Personal Action Form', Mr. Gipson's hourly rate as of December 24, 2005, was \$12.52. Therefore, the cashing out of the additional eight personal leave hours equates to \$100.16.

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

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued jointly and severally against Robert Gipson, Jim Graff, the City's Finance Director, and Ohio Farmers Insurance Company, Jim Graff's bonding company, in the amount of one hundred dollars and sixteen cents (\$100.16) and in favor of the City of Galion general fund.

On September 18, 2007, Robert Gipson repaid \$100.16 to the City.

Finding Number	2005-002
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Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005-002 (Continued)
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Certification of Expenditures (Continued)

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Forty percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005-003
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Review of Detailed Monthly Financial Reports

During 2005, City Council was provided with monthly YTD Fund Summary Reports, which show beginning and ending fund balances and year to date budgeted and actual receipts and expenditures by fund, for their review. However, no detailed reports of financial activity, such as a monthly check register or general journal, were provided to City Council for their review.

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

We recommend the Finance Director provide City Council monthly detailed financial reports, including detailed revenue and expenditure transactions. These reports should be formally reviewed by City Council as evidenced in the minute records and appropriate follow-up should be made regarding any unusual balances or transactions.

Finding Number	2005-004
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Review of Bank Reconciliations and Original Bank Statements

During 2005, bank reconciliations were performed monthly by the Finance Director's Office. However, these monthly bank reconciliations and original bank statements were not regularly reviewed by City Council or the City Manager.

Although bank reconciliations were performed and available for review in the Finance Office throughout the year, lack of regular monitoring by City Council and the City Manager of bank reconciliations and original bank statements increases the likelihood that bank reconciliations will not be performed timely and properly, and increases the likelihood that any improper bank activity may go undetected.

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

Finding Number	2005-005
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Reporting Entity

Ohio Administrative Code Section 117-2-03(B) requires the City to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) establishes those standards of accounting and financial reporting for state and local governmental entities. Standards set by GASB guide the preparation of external financial reports for those entities.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005-005 (Continued)
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Reporting Entity (Continued)

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

The Egbert M. Freese Foundation (the Foundation) is a legally separate not-for-profit organization. The Foundation was organized, and at all times shall be operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City. Upon the dissolution of the Foundation, after payment of all the liabilities, all the assets of the Foundation shall be transferred to the City of Galion or its successor.

Despite the Foundation being an entity legally separate from the City, the Foundation is a component unit of the City for financial reporting purposes since the nature and significance of the Foundation's relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Accordingly, so that the City complies with the financial accounting and reporting standards of GASB, the Foundation's financial statements must be included on the City's annual financial statements. As a result, it is necessary for the Foundation to provide annual audited financial statements to the City for inclusion in the City's financial statements.

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

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

Officials' Response

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Finding for Recovery Repaid Under Audit – Insurance Payments	Yes	
2004-002	Finding for Recovery Repaid Under Audit – Electric Billings – Galion-Mansfield Petroleum Products	Yes	
2004-003	Finding for Recovery Repaid Under Audit – Electric Billings – Carter Electric	Yes	
2004-004	Finding for Recovery Repaid Under Audit – Electric Billings – Riverside Carry-Out	Yes	
2004-005	ORC Sections 5705.09, 5705.10, 5705.12, and 5705.13 - General Government Fund Allocation	Yes	
2004-006	ORC 117.38 – GAAP Reporting	Yes	
2004-007	ORC 5705.41 (B) – Expenditures Exceed Appropriations	No	Not corrected; this finding is being repeated in the management letter.
2004-008	ORC 5705.39 – Appropriations Exceed Estimated Resources	No	Finding no longer applicable; this condition still exists; however, it is not being reported due to the City being in fiscal emergency.
2004-009	ORC 5705.10 – Negative Fund Balances	No	Finding no longer applicable; this condition still exists; however, it is not being reported due to the City being in fiscal emergency.
2004-010	ORC 5705.41 (D) – Certification of Expenditures	No	Not corrected; this finding is being repeated as finding 2005-002.
2004-011	Review of Bank Reconciliations and Original Bank Statements	No	Not corrected; this is being repeated as finding 2005-004.
2004-012	Budgetary Posting	No	Not corrected; this finding is being repeated in the management letter.
2004-013	Posting of Transactions	Yes	
2004-014	Expenditure Authorization	Yes	
2004-015	Review of Monthly Financial Reports	No	Not corrected; this finding is being repeated as finding 2005-003.
2004-016	City Council Ordinance No. 88-5668, Section 4 – Utility Deposits	Yes	



Mary Taylor, CPA
Auditor of State

CITY OF GALION

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 9, 2007**