



**Auditor of State
Betty Montgomery**

**CITY OF GALION
CRAWFORD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the 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, 2004, 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 discussed 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, 2004, as the City's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the City because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. 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 our audit provides a reasonable basis for our opinions.

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

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

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As described in Note 19, on August 9, 2004, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission has been appointed to oversee the financial affairs of the City.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had FFCU's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and the budgetary comparisons for the General, State Highway, and Revolving Loan Funds for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2004, the City revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

September 21, 2005

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The discussion and analysis of the City of Galion's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004, within the limitations of cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the City's financial performance.

Highlights

Key highlights for 2004 are as follows:

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, Ohio Revised Code. The state of fiscal emergency was declared after an analysis showed the City had thirteen separate fund deficits totaling more than \$10.9 million. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the President of City Council, the City Manager, three local residents appointed by the Governor, a representative from the Office of Budget and Management, and a representative from the Treasurer of State. This Commission was required to adopt a financial recovery plan for the City. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan. The Auditor of State's Office acts as the financial consultant to the Commission. As of December 31, 2004, the City had seven funds with deficit fund balances with a total of \$9,584,939.

During 2004, the City reduced its labor force by 25 percent after discovering the amount of deficit spending that had been occurring over the past several years. Although the personnel cuts were severe, the reduction in force did not reduce expenses enough to create a sufficient cash carryover into 2005.

For 2004, total net assets increased \$2,841,922, the result of issuing \$3,500,000 in general obligation bonds in December 2004. These bonds were issued to finance capital projects that had previously been financed with operating revenues. The repayment of the general obligation bonds are partially pledged, in the amount of \$3,200,000, with the investment income expected to be received over the next ten years from the Egbert M. Freese Foundation.

The City's governmental receipts, those being primarily income taxes, property taxes, KWH taxes, and local government funds were 23 percent of the total cash received during the year.

The City issued \$8,552,924 and repaid \$13,076,391 in general obligation notes during 2004. The City also issued \$3,500,000 in general obligation bonds, \$140,000 in OPWC loans, and \$5,845,440 in OWDA loans during 2004. A portion of the proceeds from the OWDA loans was used to repay general obligation notes. Long-term obligations, in the amount of \$414,987, were paid in 2004.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the City's cash basis of accounting.

The City has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and the related assets and liabilities. Under the City's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

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

Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property, public health, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water, sewer, electric, and stormwater services are reported here.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds, with all other nonmajor funds presented in total in a single column. For the City, the General Fund, State Highway and Revolving Loan special revenue funds, Library Bond debt service fund, Cheshire Construction and Freese Construction capital projects funds, and the Water, Sewer, Electric, Stormwater, and Utility Deposit enterprise funds are the most significant funds.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Reporting the City as a Whole

The statement of net assets and the statement of activities reflect how the City did financially during 2004, within the limitations of cash basis accounting. The statement of net assets presents the cash balance of the governmental and business-type activities of the City at year end. The statement of activities compares cash disbursements with program receipts for each function or program of the City's governmental and business-type activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the City is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the City's general receipts.

These statements report the City's cash position and the changes in cash position. Factors which contribute to these changes may also include the City's property tax base, current property tax laws in Ohio restricting revenue growth, and utility rates.

In the statement of net assets and the statement of activities, all of the City activities are presented as governmental and business-type activities. All of the City's programs and services are reported here including security of persons and property, public health, leisure time activities, transportation, general government, and capital outlay disbursements.

Reporting the City's Most Significant Funds

Fund financial statements provide detailed information about the City's major funds. While the City uses many funds to account for its financial transactions, the fund financial statements focus on the City's most significant funds. The City's major governmental funds are the General Fund, State Highway and Revolving Loan special revenue funds, Library Bond debt service fund, Cheshire Construction and Freese Construction capital projects funds, and the Water, Sewer, Electric, Stormwater, and Utility Deposit enterprise funds.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at year end for spending in future periods. These funds are reported using the cash basis accounting. The governmental fund financial statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Proprietary Funds - The City's enterprise funds also focus on how monies flow into and out of those funds and the balances left at year end for spending in future periods. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's other programs and activities.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The City as a Whole

Table 1 provides a summary of the City's net assets for 2004 and 2003:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<u>Assets</u>						
Cash and Cash Equivalents	(\$1,059,332)	(\$1,672,950)	\$1,686,865	(\$541,439)	\$627,533	(\$2,214,389)
<u>Net Assets</u>						
Restricted	\$2,366,292	\$0	\$0	\$0	\$2,366,292	\$0
Unrestricted (Deficit)	(3,425,624)	(1,672,950)	1,686,865	(\$541,439)	(1,738,759)	(2,214,389)
Total Net Assets (Deficit)	(\$1,059,332)	(\$1,672,950)	\$1,686,865	(\$541,439)	\$627,533	(\$2,214,389)

Total net assets increased \$2,841,922 due to the proceeds of issuing long-term debt. Restricted net assets are for the repayment of the library general obligation bonds, the purchase of recreational equipment, and debt proceeds for the Cheshire water and sewer project.

Table 2 reflects the changes in net assets for 2004. Since the City did not prepare financial statements according to this basis of accounting in the prior year, a comparative analysis of government-wide data has not been presented. In future years, when prior fiscal year information is available, a comparative analysis will be presented.

Table 2
Change in Net Assets

	Governmental Activities	Business-Type Activities	Total
<u>Receipts</u>			
Program Revenues			
Charges for Services	\$982,607	\$12,181,007	\$13,163,614
Operating Grants, Contributions, and Interest	795,298	0	795,298
Capital Grants, Contributions, and Interest	413,987	203,900	617,887
Total Program Revenues	2,191,892	12,384,907	14,576,799
General Receipts			
Property Taxes	598,111	0	598,111
Municipal Income Taxes	2,581,723	0	2,581,723
Other Local Taxes	568,696	41,422	610,118
Grants and Entitlements not Restricted to Specific Programs	586,098	0	586,098
Interest	5,194	0	5,194
Other	200,559	0	200,559
Total General Receipts	4,540,381	41,422	4,581,803
Total Receipts	6,732,273	12,426,329	19,158,602

Continued

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

	Governmental Activities	Business-Type Activities	Total
Disbursements			
Security of Persons and Property			
Police	\$1,961,262	\$0	\$1,961,262
Fire	1,816,845	0	1,816,845
Public Health	325,846	0	325,846
Leisure Time Activities	279,017	0	279,017
Community Environment	545,703	0	545,703
Transportation	1,088,100	0	1,088,100
General Government	1,563,424	0	1,563,424
Other	24,778	0	24,778
Capital Outlay	1,136,463	0	1,136,463
Debt Service			
Principal Retirement	2,946,584	0	2,946,584
Interest and Fiscal Charges	246,623	0	246,623
Water	0	3,850,760	3,850,760
Sewer	0	3,004,158	3,004,158
Electric	0	13,883,049	13,883,049
Stormwater	0	1,600,922	1,600,922
Utility Deposit	0	81,510	81,510
Total Disbursements	<u>11,934,645</u>	<u>22,420,399</u>	<u>34,355,044</u>
Excess of Receipts			
Under Disbursements	(5,202,372)	(9,994,070)	(15,196,442)
Notes Issued	1,758,750	6,794,174	8,552,924
Bonds Issued	3,500,000	0	3,500,000
Loans Issued	983,863	5,001,577	5,985,440
Transfers	(426,623)	426,623	0
Change in Net Assets	<u>\$613,618</u>	<u>\$2,228,304</u>	<u>\$2,841,922</u>

Program receipts for governmental activities represented 32.6 percent of total receipts and 99.7 percent for business-type activities. Municipal income taxes continue to be the City's greatest general receipt, representing over 38.3 percent of the City's total receipts for governmental activities.

The major program disbursement for governmental activities is security of persons and property, which includes the police and fire (including emergency medical service) departments. Maintenance of the City's streets also represents a significant amount of governmental disbursements as does the general business of running the City's government. These three programs alone represent almost all of the disbursements of the City of Galion and are funded almost entirely from property taxes, municipal income taxes, and State shared receipts.

The City's electric operations account for 61.9 percent of the disbursements of the City's business-type activities.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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

Table 3
Governmental Activities

	Total Cost Of Services	Net Cost of Services
	2004	2004
Current		
Security of Persons and Property		
Police	\$1,961,262	\$1,886,400
Fire	1,816,845	1,280,171
Public Health	325,846	131,098
Leisure Time Activities	279,017	(65,415)
Community Environment	545,703	286,092
Transportation	1,088,100	345,137
General Government	1,563,424	1,524,822
Other	24,778	24,778
Capital Outlay	1,136,463	1,136,463
Debt Service		
Principal Retirement	2,946,584	2,946,584
Interest and Fiscal Charges	246,623	246,623
Total Expenses	\$11,934,645	\$9,742,753

The dependence upon tax receipts and unrestricted state entitlements is apparent as over 81.6 percent of governmental activities are supported through taxes and other general receipts. However, it should be noted that leisure time activities are largely provided for through program receipts. This is the result of operating grants and contributions restricted for leisure time activities.

The City's Funds

The City's governmental funds are accounted for using the cash basis of accounting. Total governmental funds had receipts of \$6,727,710 and disbursements \$11,940,903. The greatest change within governmental funds occurred within the General Fund as the result of the issuance of long-term debt, in the amount of \$2,101,000. The Freese Construction capital projects fund decreased by \$750,000 from the requirement to pay a \$1,000,000 outstanding note. The City issued \$3,500,000 in general obligation bonds that are partially secured with the Egbert M. Freese Foundation future investment earnings.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

Budgeting Highlights

The City's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2004, the City did not request an amended certificate of estimated resources upon which to base their disbursements for the year. The appropriations for the General Fund were amended once in 2004; however, adequate controls were not in place to insure that disbursements did not exceed appropriations. Final disbursements were budgeted at \$5,631,245 while actual disbursements were \$5,633,731.

Actual General Fund receipts were less than disbursements by \$1,022,231. While a portion of this difference can be attributed to recording encumbrances as disbursements, this also indicates that the City is deficit spending. During 2004, the City reduced its labor force by 25 percent; however, this did not alleviate the drain on the General Fund budget.

Debt Administration

Debt

City debt issued in 2004 included general obligation notes and bonds, in the amount of \$8,552,924 and \$3,500,000, respectively, issued for various improvements to buildings, equipment, and infrastructure. An OPWC loan was issued \$140,000 for a street project and OWDA loans were issued for \$5,845,440 for water, sewer, and stormwater improvements. For further information regarding the City's debt, refer to Notes 11 and 12 to the basic financial statements.

Current Issues

On July 28, 2005, the City issued Local Government Fund notes, in the amount of \$818,000, to alleviate deficit cash balances. The Street Construction, Maintenance and Repair special revenue fund had a significant deficit cash balance and the note proceeds were recorded in this fund. A portion of the local government revenues received by the City will be withheld by the Crawford County Auditor and submitted to a trustee on a monthly basis until the notes are paid off in eight years.

A financial recovery plan was adopted by City Council and the Financial Planning and Supervision Commission in the spring of 2005. The recovery plan includes placing a one-half percent income tax levy on the ballot to fund police and fire programs (including emergency medical services). The City Council passed legislation and filed the ballot language with the Crawford County Board of Elections in August 2005. The ballot language stipulates that the entire one-half percent income tax levy will fund police and fire operations.

City of Galion
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

In 2004, the City was awarded a \$336,000 State and Tribal Land grant for the sewer digester improvement. The grant was matched with a \$400,000 Issue II grant. In 2005, this project was started. Anticipated completion of the project is December 2005. During 2005, the City was awarded an additional \$1,000,000 State and Tribal Land grant to upgrade the sludge handling system at the wastewater treatment plant. The grant will require a 50 percent match.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions concerning any of the information 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.

City of Galion
Statement of Net Assets - Cash Basis
December 31, 2004

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Egbert M. Freese Foundation
<u>Assets:</u>				
Cash and Cash Equivalents	(\$1,059,332)	\$1,686,865	\$627,533	\$7,995,003
<u>Net Assets:</u>				
Restricted for:				
Capital Projects	\$1,423,809	\$0	\$1,423,809	\$0
Debt Service	471,404	0	471,404	0
Other Purposes	471,079	0	471,079	0
Unrestricted (Deficit)	(3,425,624)	1,686,865	(1,738,759)	7,995,003
Total Net Assets	(\$1,059,332)	\$1,686,865	\$627,533	\$7,995,003

See Accompanying Notes to Basic Financial Statements

City of Galion
Statement of Activities - Cash Basis
For the Fiscal Year Ended December 31, 2004

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions, and Interest
<u>Governmental Activities:</u>				
Current:				
Security of Persons and Property				
Security of Persons and Property				
Police	\$1,961,262	\$41,774	\$33,088	\$0
Fire	1,816,845	528,262	6,287	2,125
Public Health	325,846	194,748	0	0
Leisure Time Activities	279,017	84,432	10,000	250,000
Community Environment	545,703	41,373	218,238	0
Transportation	1,088,100	85,716	495,385	161,862
General Government	1,563,424	6,302	32,300	0
Other	24,778	0	0	0
Capital Outlay	1,136,463	0	0	0
Debt Service:				
Principal Retirement	2,946,584	0	0	0
Interest and Fiscal Charges	246,623	0	0	0
Total Governmental Activities	11,934,645	982,607	795,298	413,987
<u>Business-Type Activities</u>				
Water	3,850,760	1,479,434	0	203,900
Sewer	3,004,158	1,499,247	0	0
Electric	13,883,049	8,751,919	0	0
Stormwater	1,600,922	366,817	0	0
Utility Deposit	81,510	83,590	0	0
Total Business-Type Activities	22,420,399	12,181,007	0	203,900
Component Unit				
Egbert M. Freese Foundation	373,915	0	459,832	0
Total	\$34,728,959	\$13,163,614	\$1,255,130	\$617,887

General Receipts:

Property Taxes Levied for:

General Purposes

Police Pension

Fire Pension

Debt Service

Income Taxes Levied for:

General Purposes

Police and Fire

Other Local Taxes - KWH Taxes

Grants and Entitlements not Restricted to Specific Programs

Interest

Miscellaneous

Total General Receipts

Change in Net Assets

Notes Issued

Bonds Issued

Loans Issued

Transfers

Net Assets (Deficit) at Beginning of Year

Net Assets (Deficit) at End of Year

See Accompanying Notes to Basic Financial Statements

Net (Disbursement) Receipt and Change in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$1,886,400)	\$0	(\$1,886,400)	\$0
(1,280,171)	0	(1,280,171)	0
(131,098)	0	(131,098)	0
65,415	0	65,415	0
(286,092)	0	(286,092)	0
(345,137)	0	(345,137)	0
(1,524,822)	0	(1,524,822)	0
(24,778)	0	(24,778)	0
(1,136,463)	0	(1,136,463)	0
(2,946,584)	0	(2,946,584)	0
(246,623)	0	(246,623)	0
(9,742,753)	0	(9,742,753)	0
0	(2,167,426)	(2,167,426)	0
0	(1,504,911)	(1,504,911)	0
0	(5,131,130)	(5,131,130)	0
0	(1,234,105)	(1,234,105)	0
0	2,080	2,080	0
0	(10,035,492)	(10,035,492)	0
0	0	0	85,917
(9,742,753)	(10,035,492)	(19,778,245)	85,917
444,018	0	444,018	0
40,186	0	40,186	0
40,186	0	40,186	0
73,721	0	73,721	0
1,910,475	0	1,910,475	0
671,248	0	671,248	0
568,696	41,422	610,118	0
586,098	0	586,098	0
5,194	0	5,194	0
200,559	0	200,559	4,420
4,540,381	41,422	4,581,803	4,420
(5,202,372)	(9,994,070)	(15,196,442)	90,337
1,758,750	6,794,174	8,552,924	0
3,500,000	0	3,500,000	0
983,863	5,001,577	5,985,440	0
(426,623)	426,623	0	0
(1,672,950)	(541,439)	(2,214,389)	7,904,666
(\$1,059,332)	\$1,686,865	\$627,533	\$7,995,003

City of Galion
Statement of Cash Basis Assets and Fund Balances
Governmental Funds and Component Unit
December 31, 2004

	Governmental Funds			
	General	State Highway	Revolving Loan	Library Debt Service
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	(\$1,326,471)	\$150,144	\$277,568	\$471,404
Total Assets	(1,326,471)	150,144	277,568	471,404
<u>Fund Balances:</u>				
Reserved for Encumbrances	\$165,086	\$0	\$0	\$0
Unreserved, Reported in:				
General Fund (Deficit)	(1,491,557)	0	0	0
Special Revenue Funds (Deficit)	0	150,144	277,568	0
Debt Service Fund	0	0	0	471,404
Capital Projects Funds	0	0	0	0
Component Unit	0	0	0	0
Total Fund Balances (Deficit)	(\$1,326,471)	\$150,144	\$277,568	\$471,404

See Accompanying Notes to Basic Financial Statements

				Component Unit
<u>Cheshire Construction</u>	<u>Freese Construction</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>	<u>Egbert M. Freese Foundation</u>
<u>\$944,559</u>	<u>\$479,250</u>	<u>(\$2,158,618)</u>	<u>(\$1,162,164)</u>	<u>\$7,995,003</u>
<u>944,559</u>	<u>479,250</u>	<u>(2,158,618)</u>	<u>(1,162,164)</u>	<u>7,995,003</u>
\$141	\$0	\$58,190	\$223,417	\$0
0	0	0	(1,491,557)	0
0	0	(2,216,808)	(1,789,096)	0
0	0	0	471,404	0
944,418	479,250	0	1,423,668	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,995,003</u>
<u>\$944,559</u>	<u>\$479,250</u>	<u>(\$2,158,618)</u>	<u>(\$1,162,164)</u>	<u>\$7,995,003</u>

City of Galion
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2004

Total Governmental Fund Balances (\$1,162,164)

Amounts reported for governmental activities in the statement of
net assets are different because

Governmental activities' net assets include the internal service
funds' cash and cash equivalents. The proprietary funds'
statements include these assets.

102,832

Net Assets of Governmental Activities

(\$1,059,332)

See accompanying notes to the basic financial statements

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City of Galion
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Governmental Funds and Component Unit
For the Year Ended December 31, 2004

	Governmental Funds			
	General	State Highway	Revolving Loan	Library Debt Service
<u>Revenues</u>				
Property Taxes	\$444,018	\$0	\$0	\$73,721
Municipal Income Taxes	1,910,475	0	0	0
Permissive Motor Vehicle License Taxes	0	0	0	0
Other Local Taxes	568,696	0	0	0
Special Assessments	0	0	0	0
Charges for Services	813,744	0	0	0
Fees, Licenses, and Permits	41,373	0	0	0
Fines and Forfeitures	31,364	0	0	0
Intergovernmental	672,736	29,254	0	0
Interest	631	0	0	0
Gifts and Donations	11,937	0	0	0
Other	116,526	0	17,387	0
Total Revenues	4,611,500	29,254	17,387	73,721
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,520,224	0	0	0
Fire	1,207,030	0	0	0
Public Health	326,009	0	0	0
Leisure Time Activities	279,041	0	0	0
Community Environment	0	0	1,893	0
Transportation	0	0	0	0
General Government	1,560,880	0	0	1,617
Other	27,094	0	0	0
Capital Outlay	136,195	0	0	0
Debt Service:				
Principal Retirement	275,000	0	0	45,000
Interest and Fiscal Charges	137,172	0	0	32,438
Total Expenditures	5,468,645	0	1,893	79,055
Excess of Revenues Over (Under) Expenditures	(857,145)	29,254	15,494	(5,334)
<u>Other Financing Sources (Uses)</u>				
Note Issued	257,500	0	0	0
Loan Issued	0	0	0	0
Bond Issued	2,101,000	0	0	0
Transfers In	0	0	0	0
Transfers Out	(1,192,598)	0	(218,000)	0
Total Other Financing Sources (Uses)	1,165,902	0	(218,000)	0
Change in Fund Balance	308,757	29,254	(202,506)	(5,334)
Fund Balance (Deficit) Beginning of Year	(1,635,228)	120,890	480,074	476,738
Fund Balance (Deficit) End of Year	(\$1,326,471)	\$150,144	\$277,568	\$471,404

See Accompanying Notes to the Basic Financial Statements

				Component Unit
Cheshire Construction	Freese Construction	Other Governmental	Total Governmental Funds	Egbert M. Freese Foundation
\$0	\$0	\$80,372	\$598,111	\$0
0	0	671,248	2,581,723	0
0	0	105,333	105,333	0
0	0	0	568,696	0
0	0	0	0	0
0	0	85,716	899,460	0
0	0	0	41,373	0
0	0	10,410	41,774	0
0	0	722,661	1,424,651	0
0	0	272	903	459,832
0	250,000	3,190	265,127	0
0	0	66,646	200,559	4,420
<u>0</u>	<u>250,000</u>	<u>1,745,848</u>	<u>6,727,710</u>	<u>464,252</u>
0	0	442,301	1,962,525	0
0	0	610,797	1,817,827	0
0	0	0	326,009	0
0	0	0	279,041	0
0	0	543,810	545,703	0
0	0	1,088,771	1,088,771	0
0	0	1,766	1,564,263	0
0	0	0	27,094	373,915
1,000,268	0	0	1,136,463	0
1,000,000	1,000,000	626,584	2,946,584	0
39,036	0	37,977	246,623	0
<u>2,039,304</u>	<u>1,000,000</u>	<u>3,352,006</u>	<u>11,940,903</u>	<u>373,915</u>
<u>(2,039,304)</u>	<u>(750,000)</u>	<u>(1,606,158)</u>	<u>(5,213,193)</u>	<u>90,337</u>
1,000,000	0	501,250	1,758,750	0
983,863	0	0	983,863	0
0	0	1,399,000	3,500,000	0
0	0	983,975	983,975	0
0	0	0	(1,410,598)	0
<u>1,983,863</u>	<u>0</u>	<u>2,884,225</u>	<u>5,815,990</u>	<u>0</u>
(55,441)	(750,000)	1,278,067	602,797	90,337
1,000,000	1,229,250	(3,436,685)	(1,764,961)	7,904,666
<u>\$944,559</u>	<u>\$479,250</u>	<u>(\$2,158,618)</u>	<u>(\$1,162,164)</u>	<u>\$7,995,003</u>

City of Galion
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds \$602,797

Amounts reported for governmental activities in the
statement of activities are different because

Internal service funds charge insurance costs to other funds. The entity-wide
statements eliminate governmental fund expenditures and related internal
service fund charges. Governmental activities report allocated net
internal service fund revenues (expenses).

10,821

Change in Net Assets of Governmental Activities

\$613,618

See accompanying notes to the basic financial statements

City of Galion
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Over (Under)
<u>Receipts:</u>				
Property Taxes	\$0	\$0	\$444,018	\$444,018
Municipal Income Taxes	0	0	1,910,475	1,910,475
Other Local Taxes	0	0	568,696	568,696
Charges for Services	0	0	813,744	813,744
Fees, Licenses, and Permits	0	0	41,373	41,373
Fines and Forfeitures	0	0	31,364	31,364
Intergovernmental	0	0	672,736	672,736
Interest	0	0	631	631
Gifts and Donations	0	0	11,937	11,937
Other	0	0	116,526	116,526
Total Revenues	0	0	4,611,500	4,611,500
<u>Disbursements:</u>				
Current:				
Security of Persons and Property				
Police	1,528,367	1,427,797	1,540,134	(112,337)
Fire	1,568,981	1,173,435	1,223,024	(49,589)
Public Health	294,553	339,064	329,044	10,020
Leisure Time Activities	300,741	163,629	283,181	(119,552)
General Government	297,557	1,886,418	1,577,558	308,860
Other	0	0	27,094	(27,094)
Capital Outlay	205,000	271,170	241,524	29,646
Debt Service				
Principal Retirement	0	369,732	275,000	94,732
Interest and Fiscal Charges	0	0	137,172	(137,172)
Total Expenditures	4,195,199	5,631,245	5,633,731	(2,486)
Excess of Revenues				
Under Expenditures	(4,195,199)	(5,631,245)	(1,022,231)	4,609,014
<u>Other Financing Sources (Uses):</u>				
Note Proceeds Issued	0	0	257,500	257,500
Bond Proceeds Issued	0	0	2,101,000	2,101,000
Transfers Out	(915,000)	(1,371,042)	(1,192,598)	178,444
Total Other Financing Sources (Uses)	(915,000)	(1,371,042)	1,165,902	2,536,944
Change in Fund Balance	(5,110,199)	(7,002,287)	143,671	7,145,958
Fund Balance (Deficit) at Beginning of Year	(1,960,427)	(1,960,427)	(1,960,427)	0
Prior Year Encumbrances Appropriated	325,199	325,199	325,199	0
Fund Balance (Deficit) at End of Year	(\$6,745,427)	(\$8,637,515)	(\$1,491,557)	\$7,145,958

See Accompanying Notes to Basic Financial Statements

City of Galion
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Basis) and Actual
State Highway Fund
For the Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Receipts:</u>				
Intergovernmental	\$0	\$0	\$29,254	\$29,254
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Fund Balance	0	0	29,254	29,254
Fund Balance at Beginning of Year	<u>120,890</u>	<u>120,890</u>	<u>120,890</u>	<u>0</u>
Fund Balance at End of Year	<u><u>\$120,890</u></u>	<u><u>\$120,890</u></u>	<u><u>\$150,144</u></u>	<u><u>\$29,254</u></u>

See Accompanying Notes to Basic Financial Statements

City of Galion
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Basis) and Actual
Revolving Loan Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Receipts:</u>				
Other	\$0	\$0	\$17,387	\$17,387
<u>Disbursements:</u>				
<u>Current:</u>				
Community Environment	<u>0</u>	<u>0</u>	<u>1,893</u>	<u>(1,893)</u>
Excess of Revenues Over Expenditures	<u>0</u>	<u>0</u>	<u>15,494</u>	<u>15,494</u>
<u>Other Financing Uses:</u>				
Transfers Out	<u>0</u>	<u>0</u>	<u>(218,000)</u>	<u>(218,000)</u>
Change in Fund Balance	0	0	(202,506)	(202,506)
Fund Balance at Beginning of Year	<u>480,074</u>	<u>480,074</u>	<u>480,074</u>	<u>0</u>
Fund Balance at End of Year	<u><u>\$480,074</u></u>	<u><u>\$480,074</u></u>	<u><u>\$277,568</u></u>	<u><u>(\$202,506)</u></u>

See Accompanying Notes to Basic Financial Statements

City of Galion
Statement of Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Water	Sewer	Electric	Stormwater
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$1,133,820	\$991,489	(\$1,895,987)	\$1,256,606
 <u>Net Assets</u>				
Unrestricted (Deficit)	\$1,133,820	\$991,489	(\$1,895,987)	\$1,256,606

Total Net Assets

See Accompanying Notes to the Basic Financial Statements

<u>Utility Deposit</u>	<u>Total Business-Type Activities</u>	<u>Governmental Activity Self Insurance Internal Service Fund</u>
<u>\$200,937</u>	<u>\$1,686,865</u>	<u>\$102,832</u>
<u><u>\$200,937</u></u>	<u><u>\$1,686,865</u></u>	<u><u>\$102,832</u></u>

City of Galion
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Water	Sewer	Electric	Stormwater
<u>Operating Revenues</u>				
Charges for Services	\$1,336,449	\$1,362,939	\$8,603,336	\$366,291
Other	142,985	136,308	148,583	526
Total Operating Revenues	1,479,434	1,499,247	8,751,919	366,817
<u>Operating Expenses</u>				
Personal Services	820,588	866,992	1,141,219	110,538
Contractual Services	153,994	195,267	216,332	42,073
Purchase of Power	0	0	5,718,175	0
Materials and Supplies	124,118	125,923	215,666	19,930
Claims	0	0	0	0
Capital Outlay	658,530	124,344	330,079	364,808
Other	0	0	9,130	0
Utility Deposits Applied	0	0	0	0
Utility Deposits Refunded	0	0	0	0
Debt Service				
Principal Retirement	1,982,115	1,654,521	6,049,588	1,042,397
Total Operating Expenses	3,739,345	2,967,047	13,680,189	1,579,746
Operating Income (Loss)	(2,259,911)	(1,467,800)	(4,928,270)	(1,212,929)
<u>Non-Operating Revenues (Expenses)</u>				
Other Local Taxes	0	0	41,422	0
Notes Issued	0	0	6,794,174	0
Loans Issued	2,275,310	1,540,327	0	1,185,940
Interest Revenue	0	0	0	0
Interest Expense	(111,415)	(37,111)	(202,860)	(21,176)
Total Non-Operating Revenues (Expenses)	2,163,895	1,503,216	6,632,736	1,164,764
Income (Loss) before Contributions and Transfers	(96,016)	35,416	1,704,466	(48,165)
Capital Contributions	203,900	0	0	0
Transfers In	0	0	426,623	0
Change in Net Assets	107,884	35,416	2,131,089	(48,165)
Net Assets (Deficit) Beginning of Year	1,025,936	956,073	(4,027,076)	1,304,771
Net Assets (Deficit) End of Year	\$1,133,820	\$991,489	(\$1,895,987)	\$1,256,606

See Accompanying Notes to the Basic Financial Statements

Utility Deposit	Total Business-Type Activities	Governmental Activity Self Insurance Internal Service Fund
\$0	\$11,669,015	\$1,640,919
83,590	511,992	23,100
83,590	12,181,007	1,664,019
0	2,939,337	0
0	607,666	18,024
0	5,718,175	0
0	485,637	0
0	0	1,639,737
0	1,477,761	0
0	9,130	0
65,230	65,230	0
16,280	16,280	0
0	10,728,621	0
81,510	22,047,837	1,657,761
2,080	(9,866,830)	6,258
0	41,422	0
0	6,794,174	0
0	5,001,577	0
0	0	4,563
0	(372,562)	0
0	11,464,611	4,563
2,080	1,597,781	10,821
0	203,900	0
0	426,623	0
2,080	2,228,304	10,821
198,857	(541,439)	92,011
\$200,937	\$1,686,865	\$102,832

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NOTE 1 - DESCRIPTION OF THE CITY AND REPORTING ENTITY

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

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

On August 9, 2004, the Auditor of State's office declared the City of Galion to be in a state of fiscal emergency in accordance with Section 118.03, Ohio Revised Code. The declaration resulted in the establishment of a Financial Planning and Supervision Commission. The Commission is comprised of the Mayor of the City, Council President, three financial consultants from various corporations and/or organizations, and two representatives from the State of Ohio. This Commission was required to adopt a financial recovery plan for the City, and the plan must be updated annually. Once the plan has been adopted, the City's discretion is limited in that all financial activity of the City must be in accordance with the plan.

Reporting Entity:

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

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

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

The City participates in two joint ventures and one insurance pool, and is associated with 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 (JV-2), the Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Plan, and the Galion Public Library. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although Ohio Administrative Code Section 117-2-03 (B) requires the City's financial report to follow generally accepted accounting principles, the City chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. The City recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e, when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

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.

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.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The statement of net assets presents the cash balance of the governmental activities of the City at fiscal year end. The statement of activities compares disbursements with program receipts for each program of the City's governmental activities. Disbursements are reported by program. A program is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the City's general receipts.

Fund Financial Statements

During the fiscal year, the City segregates transactions related to certain City 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 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.

B. Fund Accounting

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

Governmental Funds

The City classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The City's major funds are the General Fund, State Highway and Revolving Loan special revenue funds, the Library debt service fund, and the Cheshire Construction and Freese Construction capital projects funds.

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

State Highway Fund - To account for state gasoline tax and motor vehicle registration fees for maintenance and improvement of the state highways within the City corporation limits.

Revolving Loan Fund - To account for community development block grant moneys that were given to establish and administer a revolving loan program. The money may be lent to small businesses who employ city residents.

Library Debt Service Fund - To account for property tax revenues for, and the payment of, the library general long-term obligation bonds principal, interest, and related costs.

Cheshire Construction Capital Projects Fund - To account for note proceeds used to construct a stormwater system.

Freese Construction Capital Projects Fund - To account for monies received from the Egbert M. Freese Foundation for improvements to the City's park system.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The other governmental funds of the City account for grants and other resources whose use is restricted to 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 collection and distribution service to residential and commercial users within the City.

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

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

Storm Water Fund - This fund accounts for the provision of storm water service to residential and commercial properties within the City.

Utility Deposit Fund - This fund accounts for the collection of utility deposits that are either used to pay for the provision of services from the other enterprise funds or refunded.

Internal Service Fund - 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. Budgetary Process

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

The certificate of estimated resources may be amended during the fiscal 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 the Council.

The appropriation resolution 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 appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Council during the fiscal year.

D. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2004, the City did not have any investments.

E. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the City.

G. Long-Term Obligations

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

H. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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.

I. Fund Balance Reserves

The City reserves those portions of fund equity which are legally segregated for a specific future use and not available for appropriation or disbursement. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

J. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

City of Galion
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For the Year Ended December 31, 2004

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 3 - COMPLIANCE

At December 31, 2004, the following funds had deficit cash balances:

Fund Type/Fund	Amount
General	\$1,326,471
Other Governmental Funds	
Police and Fire Income Tax	56,893
Street Construction, Maintenance, and Repair	1,725,927
Street Improvement	419,165
Enterprise	
Electric	1,895,987

Ohio Rev. Code Section 5705.39 states that the total appropriation from each fund shall not exceed the total of the estimated resources available for expenditure, as certified by the budget commission. The City had not obtained an amended certificate of estimate resources from the budget commission in 2004; therefore, all appropriations passed by City Council exceeded estimated revenue. In 2005, the City submitted to the budget commission an amended certificate of estimated resources.

Ohio Rev. Code Section 5705.41(B) states in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated against an appropriate fund. Although the City Council had passed two appropriation ordinances during 2004, the expenditures against those appropriations were not monitored. Budgetary expenditures exceed appropriation authority as follows:

Fund Type/Fund	Amount by Which Expenditures Exceed Appropriations
Special Revenue Funds	
Police Drug Fund and Police and Fire Income Tax Fund	\$17,196
Airport Fund	25,382
Community Development Block Grant Fund	504,815
Community Development Block Grant Escrow Fund	78,999
Revolving Loan Fund	219,893
Veterans Memorial Fund	3,560
Capital Projects Funds	
Cheshire Construction Fund	1,023,285
Freese Construction Fund	750,000
Enterprise Fund	
Electric Fund	1,417,053
Internal Service Fund	
Health Insurance Fund	357,761

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Expenditures also exceeded appropriations in the general fund as follows:

	Appropriations	Expenditures	Variance
Security of Persons and Property - Police	\$ 1,427,797	\$ 1,540,134	\$ (112,337)
Security of Persons and Property - Fire	1,173,435	1,223,024	(49,589)
Leisure Time Activities	163,629	283,181	(119,552)
Other	-	27,094	(27,094)
Debt Service - Interest and Fiscal Charges	-	137,172	(137,172)

In 2005, the City has begun monitoring the appropriations more closely to insure that appropriations are not exceeded.

Ohio Rev. Code Section 5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. Thirty-six percent of expenditure transactions tested in 2004 were not certified by the Finance Director prior to the commitment being incurred.

NOTE 4 - 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 the 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 City Treasurer 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;

City of Galion
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For the Year Ended December 31, 2004

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

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

At fiscal year end, the carrying amount of the City's deposits was \$627,533 and the bank balance was \$783,370. Of the bank balance, \$245,317 was covered by federal depository insurance and \$538,053 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's investments are categorized to give an indication of the level of risk assumed by the City at fiscal year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The City did not have any investments at December 31, 2004.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - 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 2004 represent the collection of 2003 taxes. Real property taxes were levied in 2004 after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. These taxes will be collected in and are intended to finance 2005 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes were levied in 2004 after October 1, 2004, on the assessed values as of December 31, 2003, the lien date. These taxes will be collected in and are intended to finance 2005 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for equipment and 22 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

The City receives property taxes from Crawford and Richland Counties. The County Treasurers collect property taxes on behalf of all taxing districts within the Counties, including the City of Galion. The County Auditors periodically remit to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2004, was \$8.50 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category	Amount
Real Property	
Residential/Agricultural	\$95,118,770
Commercial/Industrial	24,746,850
Public Utility Property	
Real	28,220
Personal	2,215,620
Tangible Personal Property	16,177,338
Total Assessed Value	<u>\$138,286,798</u>

In prior years, the \$0.55 voted mills for the Library Bond Retirement debt service fund had collected more revenue than required to meet annual debt service requirements. Beginning in 2005, the voted millage will not be collected until such time that the accumulated cash balance remaining in the debt service fund has been expensed to meet future debt service requirements.

NOTE 6 - INCOME TAXES

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

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

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

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 2004, the City contracted with Arch Insurance Company for the following insurance coverage:

Building and Contents - Replacement Cost	\$11,942,329
Automobile Liability	1,000,000
Commercial Umbrella	2,000,000
General Liability	
Per Occurrence	1,000,000
Aggregate	3,000,000
Public Official Liability	1,000,000
Law Enforcement Liability	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Employee Medical Benefits

On July 1, 1988, the City established a Self-Insurance fund (an internal service fund) to account for and finance its uninsured risks of loss for employee medical, vision, and dental benefits. Under this program, the Self-Insurance fund provides coverage for up to a maximum of \$75,000 per year for each individual, with a \$1,816,560 aggregate coverage paid in any fiscal year. The maximum this policy will pay is \$1,000,000 in any fiscal year. The City purchased commercial insurance for claims in excess of coverage provided by the fund and for all other risks of loss. Settled claims have exceeded this fund's coverage; however, these claims have not exceeded the stop loss coverage. Excess costs have been reimbursed by the stop loss insurance coverage.

C. Workers' Compensation

The City participates in the Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Plan (Program), an insurance purchasing pool. The intent of the Program is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Program. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This equity pooling arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to participants that can meet the Program's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control, and actuarial services to the Program.

NOTE 8 - 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.

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, 2004, 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 2004 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, 2004, 2003, and 2002 were \$289,037, \$295,283, and \$391,386, respectively; 91 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The City paid \$248,328 in employee contributions for 2004. Contributions to the member-directed plan for 2004 were \$3,466 made by the City and \$2,174 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 contributions to the OPF for the years ended December 31, 2004, 2003, and 2002 were \$241,645, \$261,420, and \$236,650, respectively; 73 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The City paid the employee's share of pension contributions of \$169,643 in employee contributions.

NOTE 9 - 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 (OPEB) 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 2004 employer contribution rate was 13.55 percent of covered payroll (16.7 percent for law enforcement and public safety); 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, 2003, 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 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits was \$122,514. 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, 2003 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

City of Galion
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For the Year Ended December 31, 2004

On September 9, 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.

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.

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 2004. 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 2004 that were used to fund postemployment benefits were \$59,817 for police and \$75,593 for firefighters. The OPF's total health care expense for the year ended December 31, 2003 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OPF participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits is 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 first anniversary date and then accrues per pay period. Employees may accrue up to two years accumulation. Employees are paid for 100 percent of earned unused vacation leave upon termination.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Sick leave is earned at various rates as defined by City policy and union contracts. For employees, with three or more years of continuous service with the City, under the AFSCME and the Ohio Patrolmen's Benevolent Association union agreements, sick leave will be paid upon death or retirement two-thirds of accumulated sick leave. Firefighters with five or more years of service with the City will be paid upon death or retirement based on the number of sick leave hours accumulated:

<u>Minimum Hours</u>	<u>Maximum Hours</u>	<u>Percentage of Accumulation</u>
0	700	25 percent
701	1,400	33 percent
1,401	3,000	66 percent

B. Employee Insurance Benefits

Medical, vision, and dental insurance are provided to full-time employees through the City's self insurance program. The City pays the cost of the entire monthly premium for each employee.

The City provides life and accidental death and dismemberment insurance through Medical Mutual of Ohio.

NOTE 11 - NOTES PAYABLE

The City's notes activity for the year ended December 31, 2004, was as follows:

Note/Date of Issue	Interest Rate	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Within One Year
Airport						
June 5, 2003	1.63%	\$120,000	\$0	\$120,000	\$0	\$0
June 3, 2004	4.55	0	111,250	0	111,250	8,750
Total Airport		<u>120,000</u>	<u>111,250</u>	<u>120,000</u>	<u>111,250</u>	<u>8,750</u>
Recreation						
June 5, 2003	1.63%	\$275,000	\$0	\$275,000	\$0	\$0
June 3, 2004	4.55	0	257,500	0	257,500	17,500
Total Recreation		<u>275,000</u>	<u>257,500</u>	<u>275,000</u>	<u>257,500</u>	<u>17,500</u>
Fire Truck						
June 5, 2003	1.63	50,000	0	50,000	0	0
June 3, 2004	4.55	0	40,000	0	40,000	10,000
Total Fire Truck		<u>50,000</u>	<u>40,000</u>	<u>50,000</u>	<u>40,000</u>	<u>10,000</u>
Street Improvements						
June 5, 2003	1.63	350,000	0	350,000	0	0
June 3, 2004	4.55	0	350,000	0	350,000	23,334
Total Street Improvements		<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>23,334</u>

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

Note/Date of Issue	Interest Rate	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Within One Year
Cheshire Improvements						
June 5, 2003	1.63	\$1,000,000	\$0	\$1,000,000	\$0	\$0
June 3, 2004	4.55	0	1,000,000	0	1,000,000	0
Total Cheshire Improvements		1,000,000	1,000,000	1,000,000	1,000,000	0
Freese Improvements		1,000,000	0	1,000,000	0	0
Total Governmental Activities		\$2,795,000	\$1,758,750	\$2,795,000	\$1,758,750	\$59,584

Business-Type Activities

Water Improvements						
June 5, 2003	1.63%	\$1,850,000	\$0	\$1,850,000	\$0	\$0
Sewer Improvement						
June 5, 2003	1.63	1,500,000	0	1,500,000	0	0
Electric Improvement						
November 14, 2003	1.40	5,500,000	0	5,500,000	0	0
November 14, 2004	1.40	0	5,500,000	0	5,500,000	275,000
AMP Ohio Security Agreement	Variable	0	1,294,174	431,391	862,783	862,783
Stormwater Improvement						
June 5, 2003	1.63	1,000,000	0	1,000,000	0	0
Total Business-Type Activities		\$9,850,000	\$6,794,174	\$10,281,391	\$6,362,783	\$1,137,783

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Galion. The electric improvement and AMP Ohio security agreement have a maturity of one year. The notes issued on June 3, 2004 have a final maturity date on June 2, 2007. Principal and interest requirements to retire the June 3, 2004 notes outstanding at December 31, 2004, were as follows:

	June 3, 2004 Notes	
	Principal	Interest
2005	\$59,584	\$80,023
2006	59,584	77,312
2007	1,639,582	74,601
Total	\$1,758,750	\$231,936

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the City's long-term obligations during 2004 were as follows:

	Interest Rate	Balance at January 1, 2004	Additions	Reductions	Balance at December 31, 2004	Due Within One Year
<u>General Long-Term Obligations</u>						
General Obligation Bonds						
Library	7.25%	\$420,000	\$0	\$45,000	\$375,000	\$50,000
Various Purpose	5.00	0	3,500,000	0	3,500,000	350,000
Total General Obligation Bonds		420,000	3,500,000	45,000	3,875,000	400,000
<u>Other Long-Term Obligations</u>						
OPWC Loans						
South Boston 1996	0	48,431	0	19,372	29,059	19,372
OWDA Loans						
Cheshire Stormwater 2004	3.98	0	983,863	0	983,863	38,477
Police Pension	5.00	29,012	0	453	28,559	472
Fire Pension	5.00	109,966	0	1,715	108,251	1,789
Total General Long-Term Obligations		\$607,409	\$4,483,863	\$66,540	\$5,024,732	\$460,110
<u>Business-Type Activities</u>						
General Obligation Bonds						
Wastewater Treatment Plant	9.625	\$100,000	\$0	\$100,000	\$0	\$0
OMEGA JV2	4.25 - 5.25	2,485,178	0	97,721	2,387,457	101,827
Total General Obligation Bonds		2,585,178	0	197,721	2,387,457	101,827
<u>Other Long-Term Obligations</u>						
OPWC Loans						
Railroad Street Waterline 2001	0	63,994	0	3,556	60,438	3,556
West End Waterline 2004	0	0	140,000	3,500	136,500	7,000
Cherry Street Sewer 1993	0	269,071	0	26,907	242,164	26,907
OWDA Loans						
Raw Water 1997	2	292,397	0	13,656	278,741	13,929
Water Treatment 2003	2	3,779,025	0	99,517	3,679,508	101,517
Water System Improvement 2004	3.98	0	2,135,310	0	2,135,310	0
Sewer Improvement 1998	2	76,871	0	3,590	73,281	3,662
Sewer System Improvement 2004	2	0	1,540,327	0	1,540,327	0
Stormwater Improvement 2004	3.98	0	1,185,940	0	1,185,940	0
Total Business-Type Activities		\$7,066,536	\$5,001,577	\$348,447	\$11,719,666	\$258,398

1990 Library General Obligation Bonds - On September 1, 1990, the City issued \$800,000 in voted general obligation bonds for improvements to the Galion City Library with an interest rate of 7.25 percent. The bonds are being retired from the Library debt service fund with a \$0.55 voted property tax levy and will retire on December 1, 2010.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

2004 Various Purpose General Obligation Bonds - On December 15, 2004, the City issued \$3,500,000 in general obligation bonds to pay for improvements to the airport, fire and safety system, parks and recreation, and streets with an interest rate of 5 percent. The bonds are partially secured by \$3,300,000 in pledged revenues from the Egbert M. Freese Foundation to be paid over the life of the bond issue. Any balance due on the annual principal and interest payments will be paid with transfers from the General Fund. The bonds are being retired from the Freese debt service fund and will mature on December 1, 2014.

OMEGA JV 2 General Obligation Bonds - On January 1, 2001, AMP Ohio issued general obligation debt on behalf of the City, in the amount of \$2,751,516 to construct the OMEGA JV 2 electric distributive generation plant with an interest rate of 4.25 percent to 5.25 percent. The bonds will be paid from the Electric enterprise fund and will mature on January 1, 2021.

Ohio Public Works Commission (OPWC) Loans - The City has issued various OPWC loans for street, water, and sewer improvements. The loans will be paid from the Street, Construction, Maintenance, and Repair special revenue fund, and the Water and Sewer enterprise funds.

Ohio Water Development Authority (OWDA) Loans - The City has issued various OWDA loans for water, sewer, and stormwater improvements. The Cheshire improvement will be paid from special assessments. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the debt, the City will be required to pay the related debt. As of December 31, 2004, the Cheshire improvement, water improvement, and sewer improvement OWDA loans had authorized but unspent loan proceeds, in the amount of \$164,249, \$72, and \$125,000, respectively. The water improvement, sewer improvement, and stormwater improvement OWDA loans will be repaid from the Water, Sewer, and Stormwater enterprise funds, respectively.

Police and Fire Pension - 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.

The City's overall debt margin was \$8,248,442 at December 31, 2004.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, were as follows:

Governmental Activities					
	General Obligation		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2005	\$400,000	\$218,446	\$19,372	\$38,477	\$45,316
2006	405,000	182,688	9,687	40,024	43,769
2007	410,000	160,925	0	41,633	42,160
2008	415,000	139,111	0	43,306	40,487
2009	420,000	116,238	0	45,047	38,746
2010-2014	1,825,000	268,312	0	253,895	165,070
2015-2019	0	0	0	309,194	109,771
2020-2024	0	0	0	376,536	42,429
	<u>\$3,875,000</u>	<u>\$1,085,720</u>	<u>\$29,059</u>	<u>\$1,148,112</u>	<u>\$527,748</u>

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Pension	
	Principal	Interest
2005	\$2,261	\$5,791
2006	2,358	5,694
2007	2,459	5,592
2008	2,565	5,487
2009	2,675	5,376
2010-2014	15,199	25,057
2015-2019	18,756	21,501
2020-2024	23,146	17,111
2025-2029	28,562	11,695
2030-2034	35,246	5,011
2035	3,583	76
	<u>\$136,810</u>	<u>\$108,391</u>

	Electric		Water		
	General Obligation		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2005	\$101,827	\$117,260	\$10,556	\$115,446	\$78,660
2006	106,206	112,932	10,555	155,715	160,955
2007	110,586	108,684	10,555	159,606	157,064
2008	116,061	103,154	10,555	163,606	153,064
2009	121,809	97,351	10,555	167,718	148,952
2010-2014	710,325	385,529	52,776	904,457	678,894
2015-2019	911,515	184,319	52,776	1,026,286	557,065
2020-2024	209,128	9,934	38,610	1,107,102	417,738
2025-2029	0	0	0	1,221,508	264,326
2030-2034	0	0	0	953,187	96,140
2035	0	0	0	119,000	3,564
	<u>\$2,387,457</u>	<u>\$1,119,163</u>	<u>\$196,938</u>	<u>\$6,093,631</u>	<u>\$2,716,422</u>

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

	Sewer			Stormwater	
	OPWC Loan	OWDA Loans		OWDA Loans	
	Principal	Principal	Interest	Principal	Interest
2005	\$26,907	\$3,662	\$1,466	\$0	\$0
2006	26,907	33,331	67,381	21,076	46,993
2007	26,907	34,595	66,116	21,923	46,146
2008	26,907	35,909	64,803	22,805	45,264
2009	26,907	37,274	63,438	23,721	44,348
2010-2014	107,629	208,784	294,775	133,700	206,646
2015-2019	0	251,864	251,694	162,819	177,526
2020-2024	0	288,387	199,790	198,281	142,064
2025-2029	0	339,073	138,848	241,467	98,878
2030-2034	0	412,924	64,998	294,058	46,287
2035	0	92,805	2,779	66,090	1,979
	<u>\$242,164</u>	<u>\$1,738,608</u>	<u>\$1,216,088</u>	<u>\$1,185,940</u>	<u>\$856,131</u>

NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. Lease payments made during 2004 were as follows:

Fund	Principal
Other Governmental Funds	
Police and Fire Income Tax	\$76,816
Street Construction, Maintenance, And Repair	<u>8,228</u>
Total Other Governmental Funds	<u>85,044</u>
Enterprise Funds	
Water	11,886
Sewer	24,024
Electric	20,476
Stormwater	<u>42,397</u>
Total Enterprise Funds	<u>98,783</u>
Total Principal Lease Payments	<u>\$183,827</u>

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2004.

Fiscal Year Ending June 30,	Governmental Activities		Water	
	Principal	Interest	Principal	Interest
2005	\$89,898	\$9,369	\$6,357	\$302
2006	72,972	4,254	0	0
Future Long-Term Minimum Lease Payments	<u>\$162,870</u>	<u>\$13,623</u>	<u>\$6,357</u>	<u>\$302</u>
Fiscal Year Ending June 30,	Sewer		Electric	
	Principal	Interest	Principal	Interest
2005	\$6,357	\$302	\$21,670	\$2,397
2006	0	0	19,451	1,134
Future Long-Term Minimum Lease Payments	<u>\$6,357</u>	<u>\$302</u>	<u>\$41,121</u>	<u>\$3,531</u>
Fiscal Year Ending June 30,	Stormwater			
	Principal	Interest		
2005	<u>\$44,835</u>	<u>\$2,578</u>		

NOTE 14 - INTERFUND TRANSFERS

During fiscal year 2004, the General Fund transferred \$1,192,598 of which \$765,975 was to other governmental funds to subsidize operations and pay pension costs for police and fire employees and \$426,623 to the Electric enterprise fund for 2004 kilowatt hour tax on accounts within City limits.

The revolving loan special revenue fund transferred \$218,000 to other governmental funds for the local match to the community development block grant project.

NOTE 15 - 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 for the purpose of providing electric power and energy to its participants on a cooperative basis. The Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) was created for that purpose. The electric generating facilities of JV1, known as the Engle Units, are currently located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the 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. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$9,655 to the joint venture in 2004 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$30,259 at December 31, 2004. Financial information for JV1 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

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

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

Pursuant to the OMEGA JV2 Agreement (Agreement), the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquiring, constructing, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the 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 Operating & Maintenance Expenses (O&M) 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 in order to maintain a debt coverage ratio equal to 110 percent of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2004 the City of Galion has met their debt coverage obligation.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2004 was \$2,059,963 (including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's Electric enterprise fund. The City's net investment in OMEGA JV2 was \$2,011,421 at December 31, 2004. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2004 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32	19,198	Brewster	0.75	1,000
Niles	11.49	15,400	Monroeville	0.57	764
Cuyahoga Falls	7.46	10,000	Milan	0.55	737
Wadsworth	5.81	7,784	Oak Harbor	0.55	737
Painesville	5.22	7,000	Elmore	0.27	364
Dover	5.22	7,000	Jackson Center	0.22	300
Galion	4.29	5,753	Napoleon	0.20	264
Amherst	3.73	5,000	Lodi	0.16	218
St. Mary's	2.98	4,000	Genoa	0.15	199
Montpelier	2.98	4,000	Pemberville	0.15	197
Shelby	1.89	2,536	Lucas	0.12	161
Versailles	1.24	1,660	South Vienna	0.09	123
Edgerton	1.09	1,460	Bradner	0.09	119
Yellow Springs	1.05	1,408	Woodville	0.06	81
Oberlin	0.91	1,217	Haskins	0.05	73
Pioneer	0.86	1,158	Arcanum	0.03	44
Seville	0.79	1,066	Custar	0.00	4
Sub-Total	95.20%	127,640	Sub-Total	4.80	6,441
			Total	100.00%	134,081

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

Years	Principal	Interest	Total Debt Service
2005	\$101,827	\$117,260	\$219,087
2006	106,207	112,932	219,139
2007	110,586	108,684	219,270
2008	116,061	103,154	219,215
2009-2020	1,952,776	677,133	2,629,909
Total Liability	2,387,457	\$1,119,163	\$3,506,620
Less Amount Held in Reserve	(327,494)		
Net Obligation	\$2,059,963		

NOTE 16 - INSURANCE POOLS

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Plan (Plan) was established as an insurance purchasing pool.

The Plan's business and affairs are conducted by a governing board comprised of the members who have been appointed by the respective governing body of each member. Comp Management, Inc. serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 17 - RELATED ORGANIZATION

The Galion Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the council of the City of Galion. 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, 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. Financial information can be obtained from the Galion Public Library, 123 North Market Street, Galion, Ohio 44833.

NOTE 18 - SUBSEQUENT EVENTS

On July 28, 2005, the City issued local government fund notes, in the amount of \$818,000, with an interest rate of 5.875 percent for cash flow purposes. The net proceeds were recorded in the Street Construction, Maintenance, and Repair special revenue fund. The notes are to be secured with local government funds received through the Crawford County Auditor and will mature on June 1, 2013.

NOTE 19 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

The City 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 in legal proceedings will not have a material effect, if any, on the financial condition of the City.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 20 - EGBERT M. FREESE FOUNDATION

As indicated in Note 1 to the basic financial statements, the following disclosures are made on behalf of the Egbert M. Freese Foundation (Foundation).

The financial statements are prepared on the cash basis of accounting. The Foundation recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary Data

The Foundation is not legally required to be budgeted and appropriated. Budgetary information for the Foundation is not reported because it is not included in the entity for which the “appropriated budget” is adopted nor is separate budgetary information maintained.

Cash and Investments

The Foundation's money is held in segregated accounts. The Foundation's investments as of December 31, 2004 included common stock, U. S. treasuries, federal securities, corporate bonds, corporate mortgage backed securities, corporate asset backed securities, and mutual funds.

The Foundation had investments consisting of the following at December 31, 2004:

	<u>Carrying Value</u>
Common Stock	\$4,732,560
U. S. Treasury Bonds	49,430
U. S. Treasury Notes	408,537
Federal National Mortgage Association Notes	179,911
Federal National Mortgage Association Pool	885,363
Federal Home Loan Bank Debentures	177,181
Government National Mortgage Association Pool	8,390
Corporate Bonds	890,103
Corporate Mortgage Backed Securities	49,891
Corporate Asset Backed Securities	41,988
Foreign Government Bonds	51,346
Currency	10
Mutual Funds	<u>520,293</u>
Total	<u><u>\$7,995,003</u></u>



**Auditor of State
Betty Montgomery**

**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, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2005, wherein we noted the City prepared its financial statements on the modified cash accounting basis rather than in accordance with accounting principles generally accepted in the United States of America. Additionally, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission 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 have not been audited. Also, for the year ended December 31, 2004, the City revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34. 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 in order 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 2004-011 through 2004-016.

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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 2004-014 and 2004-015 listed above to be material weaknesses. In a separate letter to the City's management dated September 21, 2005, 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 2004-001 through 2004-010. In a separate letter to the City's management dated September 21, 2005, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 21, 2005

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-001
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**Finding Repaid Under Audit
Insurance Payments**

The City's December 31, 2004 payroll bank account reconciliation revealed an unreconciled variance of \$333.59. On June 5, 2002, the City wrote a check in the amount of \$333.59 to Western Southern Life Insurance Company to remit life insurance premiums withheld from employees' payroll. Additionally, two checks were written in the amounts of \$309.03 and \$24.56 (totaling \$333.59), on June 5, 2002, and June 6, 2002, respectively, to replace the original check. Western Southern Life Insurance Company deposited all three checks. Payments to Western Southern Life Insurance Company for each pay period during 2002 were made by the City with no explanation for the double payment in June 2002.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended would have been issued against Western Southern Life Insurance Company in the amount of three hundred thirty-three dollars and fifty-nine cents (\$333.59), and in favor of the City's payroll clearing account.

On September 30, 2005, Western Southern Life Insurance Company repaid \$333.59 to the City.

Finding Number	2004-002
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**Finding Repaid Under Audit
Electric Billings**

City Council Ordinance 88-5668 establishes terms, conditions and rates for the sale of electricity by the city. Section 13 specifically establishes three classes of service offered within the City's electric distribution system as follows:

- Schedule A – Not more than 25 KVA of installed or allocated transformer capacity is required, and using only single phase (120-240 voltage);
- Schedule B – More than 25 KVA but less than 150 KVA of transformer capacity and all three phase services; and
- Schedule C – Requiring 150 KVA or more of transformer capacity.

According to the City's rate schedule effective May, 1988, the utility charges are as follows:

- Schedule A - \$5.50 monthly service charge plus \$.072 per Kwh;
- Schedule B - \$20 monthly service charge, \$5 per demand point, and \$.062 per Kwh; and
- Schedule C - \$75 monthly service charge, \$6 per demand point, and \$.0545 per Kwh.

Galion-Mansfield Petroleum Products began operations in the City of Galion in 1995. At that time, the company was assessed by the City as a Schedule B customer based on the required equipment necessary for the City to provide the company electrical service. Accordingly, Galion-Mansfield Petroleum Products should have been billed based on the Schedule B fees. However, the company was instead billed as a Schedule A customer.

This improper billing caused actual billings from March 1, 1998 (earliest available computer account data), through July 31, 2005, to be \$3,396.73 less than the amount that should have been billed. Effective August 1, 2005, the City made the correction to begin billing the company based on Schedule B rates.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-002 (Continued)
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**Finding Repaid Under Audit
Electric Billings (Continued)**

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected would have been issued against Galion-Mansfield Petroleum Products in the amount of three thousand three hundred ninety-six dollars and seventy-three cents (\$3,396.73), and in favor of the City of Galion Electric Operating Fund.

On September 13, 2005, City Council passed Ordinance No. 2005-79 assuming responsibility for such underbilling and excusing Galion-Mansfield Petroleum Products from any liability related to the underbilling.

Finding Number	2004-003
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**Finding Repaid Under Audit
Electric Billings – Carter Electric**

City Council Ordinance 88-5668 establishes terms, conditions and rates for the sale of electricity by the city. Section 13 specifically establishes three classes of service offered within the City's electric distribution system as follows:

- Schedule A – Not more than 25 KVA of installed or allocated transformer capacity is required, and using only single phase (120-240 voltage);
- Schedule B – More than 25 KVA but less than 150 KVA of transformer capacity and all three phase services; and
- Schedule C – Requiring 150 KVA or more of transformer capacity.

According to the City's rate schedule effective May, 1988, the utility charges are as follows:

- Schedule A - \$5.50 monthly service charge plus \$.072 per KWH;
- Schedule B - \$20 monthly service charge, \$5 per demand point, and \$.062 per KWH; and
- Schedule C - \$75 monthly service charge, \$6 per demand point, and \$.0545 per KWH.

Carter Electric began operations in the City of Galion in 1998. At that time, the company was assessed by the City as a Schedule B customer based on the required equipment necessary for the City to provide the company electrical service. Accordingly, Carter Electric should have been billed based on the Schedule B fees. However, the company was instead billed as a Schedule A customer.

This improper billing caused actual billings from December 1, 1998, through May 31, 2005, to be \$3,953.17 less than the amount that should have been billed. Effective June 1, 2005, the City made the correction to begin billing the company based on Schedule B rates.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected would have been issued against Carter Electric in the amount of three thousand nine hundred fifty-three dollars and seventeen cents (\$3,953.17), and in favor of the City of Galion Electric Operating Fund.

On September 13, 2005, City Council passed Ordinance No. 2005-79 assuming responsibility for such underbilling and excusing Carter Electric from any liability related to the underbilling.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-004
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**Finding Repaid Under Audit
Electric Billings – Riverside Carry-Out**

City Council Ordinance 88-5668 establishes terms, conditions and rates for the sale of electricity by the city. Section 13 specifically establishes three classes of service offered within the City’s electric distribution system as follows:

- Schedule A – Not more than 25 KVA of installed or allocated transformer capacity is required, and using only single phase (120-240 voltage);
- Schedule B – More than 25 KVA but less than 150 KVA of transformer capacity and all three phase services; and
- Schedule C – Requiring 150 KVA or more of transformer capacity.

According to the City’s rate schedule effective May, 1988, the utility charges are as follows:

- Schedule A - \$5.50 monthly service charge plus \$.072 per KWH;
- Schedule B - \$20 monthly service charge, \$5 per demand point, and \$.062 per KWH; and
- Schedule C - \$75 monthly service charge, \$6 per demand point, and \$.0545 per KWH.

Riverside Carry-Out began operations in the City of Galion in 1999. At that time, the company was assessed by the City as a Schedule B customer based on the required equipment necessary for the City to provide the company electrical service. Accordingly, Riverside Carry-Out should have been billed based on the Schedule B fees. However, the company was instead billed as a Schedule A customer.

This improper billing caused actual billings from August 1, 1999, through July 31, 2005, to be \$1,793.62 less than the amount that should have been billed. Effective August 1, 2005, the City made the correction to begin billing the company based on Schedule B rates.

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected would have been issued against Riverside Carry-Out in the amount of one thousand seven hundred ninety-three dollars and sixty-two cents (\$1,793.62), and in favor of the City of Galion Electric Operating Fund.

On September 13, 2005, City Council passed Ordinance No. 2005-79 assuming responsibility for such underbilling and excusing Riverside Carryout from any liability related to the underbilling.

Finding Number	2004-005
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General Government Fund Allocation

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-005 (Continued)
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General Government Fund Allocation (Continued)

In 1986, the City established a General Government Fund. Although this fund received no receipts, various expenditures, totaling \$1,466,503, were posted to this fund in 2004. The City then allocated total expenditures from this fund evenly with \$366,626 being allocated each to the City's General fund, Water fund, Sewer fund, and Electric fund.

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

Expenditures charged to the General Government Fund are comprised of a wide variety of expenditures, for which any allocation between funds would vary based on the individual expenditure and related purpose. The City has no basis to allocate the entire General Government fund evenly between the General, Water, Sewer, and Electric funds. Certain expenditures charged to the General Government fund may be proper to allocate to one or more of these funds, but not necessarily to all four of these funds, and not necessarily to no other City funds.

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

The City has posted an adjustment to reduce expenditures in the Water Fund, Sewer Fund, and Electric Fund by \$366,626 each, and increase expenditures in the General Fund by \$1,099,878. This adjustment is reflected in the financial statements.

In 2005, the City discontinued use of the General Government Fund as a means for allocating City expenditures among multiple funds.

Finding Number	2004-006
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GAAP Reporting

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-006 (Continued)
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GAAP Reporting (Continued)

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). For 2004, the City prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, fund equities, and disclosures, that while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the City's ability to evaluate and monitor the overall financial condition of the City.

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

Finding Number	2004-007
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Expenditures Exceed Appropriations

Ohio Rev. Code Section 5705.41(B) states in part that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated as provided in such chapter. Budgetary expenditures exceeded appropriations in the following funds at December 31, 2004:

<u>Fund</u>	<u>Fund #</u>	<u>Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
Police Drug Fund & Police/Fire Income Tax	102/103	\$622,754	\$639,950	(\$17,196)
Airport	607	209,915	235,297	(25,382)
CDBG	402/403	-	583,814	(583,814)
Cheshire Construction	404	1,016,160	2,039,445	(1,023,285)
Freese Construction	405	250,000	1,000,000	(750,000)
Revolving Loan	406	-	219,893	(219,893)
Veterans Memorial	407	-	3,560	(3,560)
Electric	605/606	13,615,094	14,350,367	(735,273)
Health Insurance	805	1,300,000	1,657,761	(357,761)

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

The City has implemented certain cost-cutting measures beginning in 2004. The City implemented a computer control in 2005 that identifies when an expenditure exceeds appropriated amounts.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-008
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Appropriations Exceed Estimated Resources

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

At December 31, 2004, appropriations exceeded estimated resources as follows:

Fund	Fund #	Unencumbered Estimated Resources	2004 Appropriations	Variance
General	101	\$ 5,297,031	\$ 6,677,085	\$ (1,380,054)
Street/State Highway	201/202/203	(1,887,356)	1,380,178	(3,267,534)
Airport	607	118,370	207,780	(89,410)
Debt Service - Library	301	13,571	79,198	(65,627)
Electric	605/606	10,157,747	13,452,663	(3,294,916)

We recommend the City closely monitor its appropriations in respect to its estimated resources to help ensure the City does not overspend.

Finding Number	2004-009
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Negative Fund Balances

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

The following funds had negative fund balances as of December 31, 2004:

<u>Fund</u>	<u>Fund Number</u>	<u>Fund Balance</u>
General Fund	101	\$ (1,326,471)
Police & Fire Income Tax Fund	103	(56,893)
Street Construction, Maintenance, Repair Fund	201	(1,725,927)
Street Improvement Fund	203	(419,165)
Water Improvement Fund	602	(1,245,315)
Sewer Improvement Fund	604	(316,020)
Electric Improvement Fund	606	(4,495,151)

We recommend the City use monies paid into each fund only for the purpose for which such fund was established.

The City of Galion adopted a Financial Recovery Plan on March 22, 2005, outlining measures to be taken in efforts to alleviate the City's negative fund balances.

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)

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

Finding Number	2004-010
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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.

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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-010 (Continued)
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Certification of Expenditures (Continued)

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Finance Director should sign the certification prior to the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The approved purchase commitments should be posted to the proper appropriation code to reduce the available appropriation. When prior certification is not possible, "then and now" certification should be used.

Finding Number	2004-011
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Review of Bank Reconciliations and Original Bank Statements

During 2004, bank reconciliations were performed monthly by the Finance Director's Office. However, there was no evidence the monthly bank reconciliations or original bank statements were reviewed by the City Manager or City Council.

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

Finding Number	2004-012
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Budgetary Posting

Original appropriations and estimated receipts for 2004 approved by City Council were not posted to the City's accounting ledgers. Amended appropriations and estimated receipts approved by City Council in July were not posted to the City's accounting ledgers until October. Failure to post budgeted amounts in a timely manner results in the inability to monitor budgeted versus actual receipts and expenditures, and, thus, may impair the City's ability to detect possible errors or irregularities.

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-013
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Posting of Transactions

During 2004, financial transactions were not posted to the accounting ledgers as they occurred. January 2004, February 2004, and March 2004 financial transactions were not posted to the accounting ledgers until May 2004. Subsequent to May, 2004, the Finance Department staff posted City financial activity to the accounting ledgers at the end of each month rather than daily as each transaction occurred. Failure to timely post the financial transactions of the City limits the ability of City management to effectively monitor the City's financial activity and condition.

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

Effective February 1, 2005, the City began posting transactions to the accounting ledgers daily.

Finding Number	2004-014
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Expenditure Authorization

The City Charter designates the City Manager as the supervisor of purchasing for all City departments. Through March, 2004, there was no procedure in place whereby the City Manager consistently authorized or approved expenditure transactions. Expenditure authorization was limited, in most cases, to approval by the Finance Director. During this time, the Finance Director was providing to the City Manager and City Council manually prepared financial reports containing misrepresented financial information which concealed deficit fund balances. The City's deficit fund balances totaled \$10.2 million as of March 31, 2004, and subsequently led to the City being placed in fiscal emergency on August 9, 2004.

Effective April 6, 2004, the City Manager began approving purchase requisitions prior to purchases being made. However, following the City Manager's approval, the requisitions were returned to the department head and were not forwarded to the Finance Department.

In some cases, the Finance Department generated the purchases orders and, in some cases, department heads generated the purchase orders. In all cases, purchase orders were then certified by the Finance Director without first verifying whether the purchase was approved by the City Manager. The approval of purchase requisitions by the City's purchasing agent does not serve as an effective internal control procedure unless such approval is reviewed by the Finance Department prior to certifying purchase orders.

Purchase orders should be certified by the Finance Director only after comparing the purchase requisition to the purchase order to ensure the purchase was first approved by the City's purchasing supervisor, the City Manager. Without having the Finance Department compare the purchase order to the approved purchase requisition, purchase orders may be issued and certified without the purchase ever having been approved by the City Manager. Without such approval of the City Manager, expenditures may occur that are not consistent with the City Council's objectives or not in compliance with laws, regulations, and grant agreements. This may also result in the City over-spending or exceeding budgetary spending limitations.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-014 (Continued)
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Expenditure Authorization (Continued)

We recommend the City implement procedures whereby all purchase requisitions, once approved by the City Manager, are forwarded to the finance department. Such requisitions should be reviewed and compared to the purchase order prior the Finance Director certifying any purchase order. No such obligations should be incurred until such time that the Finance Department has verified approval of the City Manager on the purchase requisition and the Finance Director certifies the purchase order.

In March, 2005, the City Manager began approving purchase requests by signing the purchase orders following certification of the availability of funds by the City Finance Director.

Also, although expenditures exceeding \$25,000 require prior approval of City Council, we further recommend the systems-generated check registers be provided to the City Manager and City Council monthly to help ensure City expenditures are only being made for authorized purposes. As an alternative, City Council may consider delegating this monitoring function to the Finance Committee, which could report its findings back to the Council.

Finding Number	2004-015
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Review of Monthly Financial Reports

During 2004, no systems-generated reports of financial activity were provided to the City Council to monitor. Additionally, no such reports were provided to the City Manager or department heads for review. Until March, 2004, manual reports were occasionally created by the prior Finance Director and distributed to the City Council; however, the activity on the reports was misrepresented and did not agree to the actual activity and balances in the City's accounting system. As a result, the City Council and City Manager did not have accurate knowledge of the financial status of the City and the effectiveness of any monitoring of financial activity was compromised. Once discovered by management, cash-basis fund deficits, which totaled approximately \$10.2 million at March 31, 2004, eventually led to the City being placed in fiscal emergency on August 9, 2004.

Beginning in May, 2004, the Interim Finance Director also created certain reports for Council's review; however, these, too, were manually prepared with the exception of one systems-generated Cash Position Report being provided to Council in August, 2004.

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

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

In 2005, the Finance Director began providing systems generated Fund Summary Reports to City Council.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2004-016
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Utility Deposits

Section 4 of City Council Ordinance No. 88-5668 states, in part, a deposit may be required of the customer at any time or from time to time before or after service is commenced. Deposit criteria and amounts will be set by the City Manager and/or Finance Director.

In a memo dated March 9, 1989 from the previous Finance Director, Bill Bauer, to employees of the utility billing office, certain utility deposits criteria were established. The memo indicated utility deposits of \$100 were required for residential customers and \$150 for poor pay customers and any residential customers utilizing electrical heat. The memo further states commercial and power customer deposits will be set by the Finance Director on a case by case basis. The memo further provided that deposits can not be changed except through the Finance Director.

Twenty-five percent of new utility accounts tested in 2004 did not pay a utility deposit. The decision of whether to charge customers a utility deposit was made by utility department personnel. The City maintained a "good credit" letter from the customer's previous utility company to support waiving the utility deposit for ten percent of the accounts tested. However, the City has not established favorable credit history as criteria to waive the utility deposit fee.

In order to ensure completeness of utility deposits and to ensure consistency in fees charge to utility customers, we recommend the City develop a formal written policy which provides clear guidelines for the collection of utility deposits. This policy should set deposit amounts and provide specific criteria to be used, including any such criteria if the City chooses to continue waiving certain deposits. Furthermore, the City should maintain written documentation to support waiving any utility deposit, based on established criteria. Regardless of the policy established, the criteria should be applied consistently to all utility customers. Such a policy should be approved by City Council.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding for Recovery- Misappropriated city receipts	Yes	Fully corrected.
2003-002	Finding for Recovery – Credit card cash advances	Yes	Fully corrected; the City closed its credit card account in 2004.
2003-003	Finding for Recovery – ATM/Cash Withdrawals	Yes	Fully corrected.
2003-004	Finding for Recovery – Unallowable insurance claim	Yes	Fully corrected.
2003-005	Finding for Recovery – Sick leave incentive	Yes	Fully corrected.
2003-006	Finding Repaid Under Audit – Duplicate vendor payment	Yes	Fully corrected; the City was reimbursed by the vendor for the duplicate payment.
2003-007 through 2003-009	Findings Repaid Under Audit – travel expenses for non-city employees	Yes	Fully corrected; the City was reimbursed for the related travel expenses.
2003-010	Finding Repaid Under Audit – travel advance	Yes	Fully corrected; the City was repaid for the unaccounted for cash during 2004.
2003-011	Finding for Adjustment – Veterans Memorial Account	Yes	Fully corrected.
2003-012	ORC 5705.12 and 5705.10 – Finding for Adjustment – General Government Fund Allocation	No	Partially corrected; this finding is being reissued as finding 2004-005, however, the City has discontinued use of this fund in 2005.
2003-013	5705.09 and 5705.10 – Finding for Adjustment – Library Bond tax levy proceeds used for purposes inconsistent with the voted tax levy.	Yes	Fully corrected; tax levy collections have been suspended and the City is responsible for retiring the portion of the outstanding debt for which the tax levy proceeds were used for other purposes.
2003-014	ORC 5705.10 – Finding for Adjustment – Contributions to non-profit entities improperly paid entirely from the Electric Operating Fund	No	Not corrected; this finding is being repeated in the management letter.
2003-015	5727.81(C)(2) and 5727.82(A)(3) – Finding for Adjustment – Kilowatt hour tax	Yes	Fully corrected; the 2004 Kilowatt hour tax for residents inside the city limits was properly credited to the City's general fund.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-016	Finding for Adjustment – Freese Foundation Contribution	Yes	Fully corrected; the City established a Freese Foundation fund in 2004.
2003-017	ORC 117.38 and OAC 117-2-03 – GAAP Reporting	No	Not corrected; the City is reporting on the modified cash basis of accounting for 2004.
2003-018	5705.41(B) – Expenditures exceed appropriations	No	Not corrected; this is being repeated as finding 2004-007.
2003-019	5705.39 - Appropriations Exceed Estimated Resources	No	Not corrected; this is being repeated as finding 2004-008.
2003-020	Cheshire Estates Subdivision notes proceeds not used for the purpose outlined in City Council Ordinance 2003-50	Yes	Fully corrected.
2003-021	ORC 5705.10 - Negative Fund Balances	No	Not corrected; this is being repeated as finding 2004-009.
2003-022	ORC 5705.14 – Council authorization for interfund transfers	No	Partially corrected; this is being repeated in the management letter.
2003-023	ORC 5705.41(D) – Certification of Expenditures	No	Not corrected; this is being repeated as finding 2004-010.
2003-024	Budgetary posting to the accounting ledgers	No	Not corrected; this is being repeated as finding 2004-012.
2003-025	Monitoring of systems-generated monthly financial reports	No	Not corrected; this is being repeated as finding 2004-015.
2003-026	Expenditure authorization	No	Partially corrected; the City Manager began approving purchase requisitions in April, 2004, however, such approval is not verified by the finance department prior to expending monies. This is being repeated as finding 2004-014. In 2005, the City Manager began approving all purchase orders.
2003-027	Posting receipt and disbursement transactions timely	No	Not corrected; this is being repeated as finding 2004-013.
2003-028	Review of monthly bank reconciliations	No	Not corrected; this is being repeated as finding 2004-011.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-029	Airport Improvement Program – Allowable Activities	Yes	The City is not subject to single audit compliance testing in 2004; however, the City is now using the property purchased with federal Airport Improvement Program grant monies only for airport related purposes.



**Auditor of State
Betty Montgomery**

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**CITY OF GALION
CRAWFORD COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 20, 2005**