



**Mary Taylor, CPA**  
Auditor of State



**CITY OF GALION  
CRAWFORD COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Auditor of State served during the year ended December 31, 2006, as the City's financial supervisor under Ohio Revised Code §118.05(G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinions.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the FFCU's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Galion, Crawford County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Mary Taylor, CPA**  
Auditor of State

October 29, 2007

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED**

The discussion and analysis of the City of Galion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2006 are as follows:

In total, the City's net assets increased almost 26 percent from the prior year; 11 percent for governmental activities and almost 53 percent for business-type activities. This demonstrates a significant improvement in the City's financial position as the City continues to recover from fiscal emergency. While the City is still unable to project when it will emerge from fiscal emergency, this progress reflects the diligence of City officials and employees in regaining financial stability in the City.

General revenues made up 72 percent of the total revenues for governmental activities in 2006. There was a significantly greater dependence on general revenues (primarily municipal income taxes) in 2006. Charges for services related to governmental activities decreased over 54 percent (over \$1.6 million) from the prior year. This drop can be attributed to a reduction in the allocation of general administrative costs to the enterprise funds. This allocation is largely connected to the expenses of the enterprise funds and as budgets have been decreased due to the City's financial condition, the associated overhead costs have also been cut.

The City's General Fund emerged from its deficit fund balance in 2006 (from a \$623,000 deficit in 2005 to a \$581,000 positive balance in 2006). Subsidies to other funds were reduced by \$139,000 and transfers for debt payments were reduced by \$902,000. The City is also continuing with very conservative spending in the General Fund.

The City's Electric enterprise fund also emerged from its deficit net assets in 2006. The 8 percent rate increase (began in July 2005) coupled with continued spending reductions and effective monitoring and regulating of the power cost adjustment have led to this fund's turnaround.

USING THIS ANNUAL REPORT

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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



**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water, sewer, electric, and storm water operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounts for the City's self-insured program for employee health care benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2006 and 2005.

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current and Other Assets	\$6,066,249	\$4,555,218	\$10,114,835	\$6,538,030	\$16,181,084	\$11,093,248
Capital Assets, Net	14,819,618	15,409,335	20,690,040	21,201,533	35,509,658	36,610,868
Total Assets	<u>20,885,867</u>	<u>19,964,553</u>	<u>30,804,875</u>	<u>27,739,563</u>	<u>51,690,742</u>	<u>47,704,116</u>
<u>Liabilities</u>						
Current and Other Liabilities	2,537,410	2,737,797	1,912,158	2,076,763	4,449,568	4,814,560
Long-Term Liabilities	3,866,894	4,158,978	17,671,812	18,315,115	21,538,706	22,474,093
Total Liabilities	<u>6,404,304</u>	<u>6,896,775</u>	<u>19,583,970</u>	<u>20,391,878</u>	<u>25,988,274</u>	<u>27,288,653</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	11,210,056	11,477,511	4,586,121	4,664,301	15,796,177	16,141,812
Restricted	3,858,449	3,183,460	0	0	3,858,449	3,183,460
Unrestricted (Deficit)	(586,942)	(1,593,193)	6,634,784	2,683,384	6,047,842	1,090,191
Total Net Assets	<u>\$14,481,563</u>	<u>\$13,067,778</u>	<u>\$11,220,905</u>	<u>\$7,347,685</u>	<u>\$25,702,468</u>	<u>\$20,415,463</u>

A review of the above table reflects several significant changes from the prior year for governmental activities. The increase in current and other assets, over \$1.5 million, can be attributed to three primary sources. Cash and cash equivalents increased just over \$1.2 million due to frugal spending by all City departments, necessitated by the City's fiscal emergency situation, as well as from the collection of income taxes from the police and fire operating levy approved by voters in February 2006. Collections began in July 2006. In addition, the City's General Fund had a receivable of a little over \$375,000 from the City's various enterprise funds for services provided to them throughout the year. The additional restricted tax revenues resulted in the increase in restricted net assets while the combination of limited spending and charges to the enterprise funds led to the increase in unrestricted net assets.

For business-type activities, there was an increase in current and other assets of over \$3.5 million and a corresponding increase in unrestricted net assets. For 2006, the enterprise funds had a modest increase in operating revenues of \$457,700; however, operating expenses were cut by \$2.84 million.

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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Table 2 reflects the change in net assets for 2006 and 2005.

Table 2  
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$1,386,880	\$3,035,699	\$15,147,149	\$14,705,485	\$16,534,029	\$17,741,184
Operating Grants, Contributions, and Interest	696,263	1,136,343	101,514	53,292	797,777	1,189,635
Capital Grants and Contributions	287,686	197,830	0	0	287,686	197,830
<b>Total Program Revenues</b>	<b>2,370,829</b>	<b>4,369,872</b>	<b>15,248,663</b>	<b>14,758,777</b>	<b>17,619,492</b>	<b>19,128,649</b>
<b>General Revenues</b>						
Property Taxes Levied for General Purposes	409,294	408,044	0	0	409,294	408,044
Property Taxes Levied for Police and Fire Pension	74,612	74,446	0	0	74,612	74,446
Property Taxes Levied for Debt Service	7	7	0	0	7	7
Municipal Income Taxes Levied for General Purposes	1,969,470	1,815,706	0	0	1,969,470	1,815,706
Municipal Income Taxes Levied for Police and Fire	1,406,617	688,023	0	0	1,406,617	688,023
Municipal Income Taxes Levied for Recreation	204,383	192,575	0	0	204,383	192,575
Other Local Taxes	429,560	448,289	0	0	429,560	448,289
Grants and Entitlements not Restricted to Specific Programs	843,203	529,870	0	0	843,203	529,870
Interest	177,904	34,504	19,499	4,790	197,403	39,294
Other	537,715	567,815	408,123	383,478	945,838	951,293
<b>Total General Revenues</b>	<b>6,052,765</b>	<b>4,759,279</b>	<b>427,622</b>	<b>388,268</b>	<b>6,480,387</b>	<b>5,147,547</b>
<b>Total Revenues</b>	<b>8,423,594</b>	<b>9,129,151</b>	<b>15,676,285</b>	<b>15,147,045</b>	<b>24,099,879</b>	<b>24,276,196</b>

(continued)

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

Table 2  
Change in Net Assets  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Program Expenses</u>						
Security of Persons and Property						
Police	\$1,443,775	\$1,585,498	\$0	\$0	\$1,443,775	\$1,585,498
Fire	1,484,809	1,636,715	0	0	1,484,809	1,636,715
Public Health	296,931	303,451	0	0	296,931	303,451
Leisure Time Activities	236,908	299,882	0	0	236,908	299,882
Community Environment	257,994	88,057	0	0	257,994	88,057
Transportation	1,682,338	1,353,655	0	0	1,682,338	1,353,655
General Government	1,293,046	1,363,921	0	0	1,293,046	1,363,921
Interest and Fiscal Charges	269,513	265,016	0	0	269,513	265,016
Water	0	0	1,614,117	2,118,098	1,614,117	2,118,098
Sewer	0	0	1,367,400	2,004,635	1,367,400	2,004,635
Electric	0	0	8,579,562	10,293,623	8,579,562	10,293,623
Storm Water	0	0	286,481	151,222	286,481	151,222
<b>Total Expenses</b>	<b>6,965,314</b>	<b>6,896,195</b>	<b>11,847,560</b>	<b>14,567,578</b>	<b>18,812,874</b>	<b>21,463,773</b>
Increase in Net Assets Before Transfers	1,458,280	2,232,956	3,828,725	579,467	5,287,005	2,812,423
Transfers	(44,495)	(117,881)	44,495	117,881	0	0
<b>Increase in Net Assets</b>	<b>1,413,785</b>	<b>2,115,075</b>	<b>3,873,220</b>	<b>697,348</b>	<b>5,287,005</b>	<b>2,812,423</b>
Net Assets Beginning of Year	13,067,778	10,952,703	7,347,685	6,650,337	20,415,463	17,603,040
<b>Net Assets End of Year</b>	<b>\$14,481,563</b>	<b>\$13,067,778</b>	<b>\$11,220,905</b>	<b>\$7,347,685</b>	<b>\$25,702,468</b>	<b>\$20,415,463</b>

The above table reflects the revenues and expenses for operating the City during 2006. Note the substantial decrease in program revenues for governmental activities in 2006. As mentioned previously, there was a reduction in the allocation of general administrative costs to the enterprise funds which led to the decrease in charges for services. In addition, the City received several non-recurring operating grants in 2005. With the exception of municipal income taxes for police and fire operations, general revenues remained fairly consistent with 2005. For 2006, the City began receiving collections on the .5 percent income tax approved by voters in February, with collections beginning in July. A review of the above table demonstrates just how significant of a revenue source the City's income taxes are and just how little the City receives in property taxes. One other important relationship to note is that, for 2006, income taxes for police and fire operations provided for less than half of the costs of operating those departments.

In reviewing expenses, note that police and fire operations account for 42 percent of the City's total expenses and the street department operations account for another 24 percent of total expenses. These three departments, along with the basic costs of city operations (administration, receipt collections, paying bills, etc.), account for 85 percent of all of the City's general governmental expenses.

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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As is to be expected, 97 percent of the revenues for business-type activities are received through charges for services provided to the users of the systems. By far, the electric distribution system is the City's largest enterprise as demonstrated by the costs to operate the system. As is the intent of enterprise operations, overall, the costs of the City's four utilities were recovered through user charges and other revenues in 2006.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Security of Persons and Property				
Police	\$1,443,775	\$1,585,498	\$1,363,088	\$1,518,607
Fire	1,484,809	1,636,715	981,840	1,291,229
Public Health	296,931	303,451	90,135	91,694
Leisure Time Activities	236,908	299,882	203,906	283,502
Community Environment	257,994	88,057	24,602	(466,720)
Transportation	1,682,338	1,353,655	881,374	468,722
General Government	1,293,046	1,363,921	780,027	(925,727)
Interest and Fiscal Charges	269,513	265,016	269,513	265,016
<b>Total Expenses</b>	<b>\$6,965,314</b>	<b>\$6,896,195</b>	<b>\$4,594,485</b>	<b>\$2,526,323</b>

While the dependence on general revenues to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services provide for 70 percent of public health costs and charges for services and operating grants and contributions provide for almost 48 percent of transportation costs (the transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes). Operating and capital grants provided for 90 percent of the costs of the community environment program, generally in the form of community development block grants and revolving loan monies for various community rehabilitation projects. Program revenues also provided for almost 40 percent of the costs of the general government program. This is primarily the result of charges to the utility systems for general government services provided to them combined with continued cautious spending in the general government program.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's only major governmental fund is the General Fund. The General Fund experienced a \$1.2 million increase in fund balance in 2006, a significant improvement from the prior year. While General Fund spending remains closely monitored, the primary reason for the improvement in 2006 was a reduction in the operating subsidies to other funds as well as a reduction in the amount needed for debt payments (combined savings of over \$1 million).

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
UNAUDITED  
(Continued)**

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund balances, all four funds experienced an operating income in 2006 and the Electric enterprise fund emerged from its deficit net assets of the past several years.

In July 2005, the City implemented rate increases for water, sewer, and electric. The City increased rates for both water and sewer again in January 2006 and January 2007. These rates will be raised in January 2008 and January 2009 as well. There are no future rate increases currently scheduled for electric. The City has entered into contracts to reevaluate the rates for water, sewer, and electric to ensure they will be sufficient to pay the costs of current operations as well as begin to accumulate resources for capital improvements.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, there was no change from the original budget to the final budget; however, there was a 27 percent increase from the final budget to actual revenues received. This was primarily due to conservative estimates. For expenditures, changes from the original budget to the final budget and from the final budget to actual expenditures were not significant. Note that actual expenditures were less than budgeted amounts for all programs demonstrating the City's continued effort toward financial recovery. Also, note that there were no amounts budgeted for principal and interest payments on the City's local government fund notes. In accordance with section 118.17 of the Ohio Revised Code, the City is restricted from budgeting for these expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2006, was \$14,819,618 and \$20,690,040, respectively (net of accumulated depreciation). This investment in capital assets includes land; buildings; improvements other than buildings; streets; bridges; water, sewer, electric, and storm water lines; equipment; and vehicles. Due to the City's fiscal status, very limited capital assets were acquired in 2006. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2006, the City had \$735,000 in revenue anticipation notes and \$639,582 in bond anticipation notes payable from governmental activities and \$1,000,000 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$3,239,980 in general obligation bonds, \$364,178 in Ohio Public Works Commission loans, and \$9,666,360 in Ohio Water Development Authority loans. In addition, the City's long-term obligations also include compensated absences, the liability for police and fire incurred when the State of Ohio established the statewide pension system, capital leases, and two long-term obligations with AMP-Ohio. For further information regarding the City's debt, refer to Notes 16, 17, and 18 to the basic financial statements.

**CITY OF GALION  
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
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CURRENT ISSUES

As of December 31, 2006, the City has been in fiscal emergency just under two and one-half years, so the City's primary concern continues to be reestablishing positive fund balances and financial stability. While the City's financial statements reflect the tremendous progress the City has made, the City is still unable to project when it will emerge from fiscal emergency.

Despite the fact that the City's financial picture at the end of 2006 reflects ongoing improvement, sacrifices continue to be made throughout the City. In January 2006, the City had to layoff a number of employees, and while the City was able to return most of those employees to work in 2006, all City employees went another year without any pay increases. All City union workers agreed to extend their labor contracts through 2006 and 2007 without hourly wage increases. Fortunately, with the improvement in the City's financial status, the City was able to provide a one-time bonus to all City employees in 2007 to help offset the lack of wage increases and to demonstrate the Administration's recognition of the efforts made by all City employees toward financial recovery.

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

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

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

REQUEST FOR INFORMATION

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

**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 2,330,911	\$ 4,983,391	\$ 7,314,302	\$ -
Cash and Cash Equivalents with Fiscal Agent	77,822	351,783	429,605	-
Investments in Segregated Accounts	-	-	-	9,668,700
Accounts Receivable	42,650	2,759,548	2,802,198	-
Due from Other Governments	593,333	9,182	602,515	-
Municipal Income Taxes Receivable	1,217,444	-	1,217,444	-
Other Local Taxes Receivable	7,462	-	7,462	-
Excise Taxes Receivable	-	41,609	41,609	-
Internal Balances	453,643	(453,643)	-	-
Prepaid Items	34,503	25,597	60,100	-
Materials and Supplies Inventory	66,646	24,609	91,255	-
Property Taxes Receivable	547,075	-	547,075	-
Notes Receivable	694,760	-	694,760	-
Special Assessments Receivable	-	537,110	537,110	-
Nondepreciable Capital Assets	3,466,462	2,274,906	5,741,368	-
Depreciable Capital Assets, Net	11,353,156	18,415,134	29,768,290	-
Investment in Joint Venture	-	1,835,649	1,835,649	-
<b>Total Assets</b>	<b>20,885,867</b>	<b>30,804,875</b>	<b>51,690,742</b>	<b>9,668,700</b>
<u>Liabilities</u>				
Accrued Wages Payable	51,737	22,196	73,933	-
Accounts Payable	212,006	572,530	784,536	-
Contracts Payable	75,918	5,755	81,673	-
Due to Other Governments	162,451	69,706	232,157	-
Accrued Interest Payable	38,933	19,414	58,347	-
Notes Payable	1,374,582	1,000,000	2,374,582	-
Deferred Revenue	423,346	-	423,346	-
Claims Payable	198,437	-	198,437	-
Deposits Held and Due to Others	-	222,557	222,557	-
Long-Term Liabilities				
Due Within One Year	547,504	732,791	1,280,295	-
Due in More Than One Year	3,319,390	16,939,021	20,258,411	-
<b>Total Liabilities</b>	<b>6,404,304</b>	<b>19,583,970</b>	<b>25,988,274</b>	<b>-</b>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	11,210,056	4,586,121	15,796,177	-
Restricted for				
Capital Projects	1,447,406	-	1,447,406	-
Debt Service	297,506	-	297,506	-
Police and Fire Operations	946,930	-	946,930	-
Revolving Loans	933,165	-	933,165	-
Other Purposes	233,442	-	233,442	-
Unrestricted (Deficit)	(586,942)	6,634,784	6,047,842	9,668,700
<b>Total Net Assets</b>	<b>\$ 14,481,563</b>	<b>\$ 11,220,905</b>	<b>\$ 25,702,468</b>	<b>\$ 9,668,700</b>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$ 1,443,775	\$ 50,813	\$ 29,874	\$ -
Fire	1,484,809	470,348	32,621	-
Public Health	296,931	206,796	-	-
Leisure Time Activities	236,908	8,999	24,003	-
Community Environment	257,994	-	143,521	89,871
Transportation	1,682,338	208,411	406,388	186,165
General Government	1,293,046	441,513	59,856	11,650
Interest and Fiscal Charges	269,513	-	-	-
Total Governmental Activities	6,965,314	1,386,880	696,263	287,686
<u>Business-Type Activities</u>				
Water	1,614,117	1,613,209	-	-
Sewer	1,367,400	1,625,096	101,514	-
Electric	8,579,562	11,522,628	-	-
Storm Water	286,481	386,216	-	-
Total Business-Type Activities	11,847,560	15,147,149	101,514	-
Total Primary Government	18,812,874	16,534,029	797,777	287,686
<u>Component Unit</u>				
Egbert M. Freese Foundation	542,238	-	-	-
Total	\$ 19,355,112	\$ 16,534,029	\$ 797,777	\$ 287,686

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements



Net (Expense) Revenue and Change in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
\$ (1,363,088)	\$ -	\$ (1,363,088)	\$ -
(981,840)	-	(981,840)	-
(90,135)	-	(90,135)	-
(203,906)	-	(203,906)	-
(24,602)	-	(24,602)	-
(881,374)	-	(881,374)	-
(780,027)	-	(780,027)	-
(269,513)	-	(269,513)	-
(4,594,485)	-	(4,594,485)	-
-	(908)	(908)	-
-	359,210	359,210	-
-	2,943,066	2,943,066	-
-	99,735	99,735	-
-	3,401,103	3,401,103	-
(4,594,485)	3,401,103	(1,193,382)	-
-	-	-	(542,238)
(4,594,485)	3,401,103	(1,193,382)	(542,238)
409,294	-	409,294	-
74,612	-	74,612	-
7	-	7	-
1,969,470	-	1,969,470	-
1,406,617	-	1,406,617	-
204,383	-	204,383	-
429,560	-	429,560	-
843,203	-	843,203	-
177,904	19,499	197,403	1,119,039
537,715	408,123	945,838	-
6,052,765	427,622	6,480,387	1,119,039
(44,495)	44,495	-	-
6,008,270	472,117	6,480,387	1,119,039
1,413,785	3,873,220	5,287,005	576,801
13,067,778	7,347,685	20,415,463	9,091,899
\$ 14,481,563	\$ 11,220,905	\$ 25,702,468	\$ 9,668,700

**CITY OF GALION  
CRAWFORD COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$ -	\$ 2,330,911	\$ 2,330,911
Accounts Receivable	42,318	332	42,650
Due from Other Governments	355,125	238,208	593,333
Municipal Income Taxes Receivable	608,722	608,722	1,217,444
Other Local Taxes Receivable	-	7,462	7,462
Interfund Receivable	1,197,573	333,000	1,530,573
Restricted Assets			
Cash and Cash Equivalents with Fiscal Agent	77,822	-	77,822
Prepaid Items	26,691	7,812	34,503
Materials and Supplies Inventory	-	66,646	66,646
Property Taxes Receivable	462,455	84,620	547,075
Notes Receivable	-	694,760	694,760
	<u>2,770,706</u>	<u>4,372,473</u>	<u>7,143,179</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accrued Wages Payable	17,439	34,298	51,737
Accounts Payable	174,673	27,157	201,830
Contracts Payable	-	75,918	75,918
Due to Other Governments	77,132	85,319	162,451
Interfund Payable	-	1,152,054	1,152,054
Accrued Interest Payable	21,591	-	21,591
Notes Payable	735,000	-	735,000
Deferred Revenue	1,163,392	789,790	1,953,182
	<u>2,189,227</u>	<u>2,164,536</u>	<u>4,353,763</u>
<u>Fund Balance</u>			
Reserved for Future Debt Service	77,822	-	77,822
Reserved for Notes Receivable	-	638,448	638,448
Reserved for Encumbrances	-	266,404	266,404
Unreserved, Reported in			
General Fund	503,657	-	503,657
Special Revenue Funds (Deficit)	-	(308,699)	(308,699)
Debt Service Funds	-	239,972	239,972
Capital Projects Funds	-	1,371,812	1,371,812
	<u>581,479</u>	<u>2,207,937</u>	<u>2,789,416</u>
Total Liabilities and Fund Balance	<u>\$ 2,770,706</u>	<u>\$ 4,372,473</u>	<u>\$ 7,143,179</u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2006**

Total Governmental Fund Balance \$ 2,789,416

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 14,819,618

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$	33,343	
Due from Other Governments		410,045	
Municipal Income Taxes Receivable		1,050,424	
Property Taxes Receivable		<u>36,024</u>	
			1,529,836

An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities. 78,466

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

Accrued Interest Payable		(17,342)	
Notes Payable		(639,582)	
General Obligation Bonds Payable		(3,239,980)	
Compensated Absences Payable		(494,723)	
Police Pension Liability		(27,595)	
Fire Pension Liability		<u>(104,596)</u>	
			(4,523,818)

An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. (211,955)

Net Assets of Governmental Activities \$ 14,481,563

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General	Other Governmental	Total Governmental Funds
<u>Revenues</u>			
Property Taxes	\$ 404,737	\$ 73,785	\$ 478,522
Municipal Income Taxes	2,036,679	1,377,577	3,414,256
Other Local Taxes	429,560	100,235	529,795
Charges for Services	1,023,047	116,443	1,139,490
Fees, Licenses, and Permits	94,432	-	94,432
Fines and Forfeitures	28,984	17,322	46,306
Intergovernmental	877,415	1,486,034	2,363,449
Interest	177,797	32,105	209,902
Other	61,185	440,601	501,786
<b>Total Revenues</b>	<b>5,133,836</b>	<b>3,644,102</b>	<b>8,777,938</b>
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Police	928,489	497,531	1,426,020
Fire	793,917	585,595	1,379,512
Public Health	307,677	-	307,677
Leisure Time Activities	-	236,483	236,483
Community Environment	-	266,871	266,871
Transportation	-	1,152,835	1,152,835
General Government	1,174,197	76,808	1,251,005
Debt Service:			
Principal Retirement	-	549,600	549,600
Interest and Fiscal Charges	41,815	229,149	270,964
<b>Total Expenditures</b>	<b>3,246,095</b>	<b>3,594,872</b>	<b>6,840,967</b>
<b>Excess of Revenues Over Expenditures</b>	<b>1,887,741</b>	<b>49,230</b>	<b>1,936,971</b>
<u>Other Financing Sources (Uses)</u>			
General Obligation Bonds Issued	-	169,980	169,980
Sale of Capital Assets	-	78,034	78,034
Transfers In	-	754,254	754,254
Transfers Out	(682,815)	(115,934)	(798,749)
<b>Total Other Financing Sources (Uses)</b>	<b>(682,815)</b>	<b>886,334</b>	<b>203,519</b>
<b>Changes in Fund Balance</b>	<b>1,204,926</b>	<b>935,564</b>	<b>2,140,490</b>
<b>Fund Balance (Deficit) Beginning of Year</b>	<b>(623,447)</b>	<b>1,272,373</b>	<b>648,926</b>
<b>Fund Balance End of Year</b>	<b>581,479</b>	<b>2,207,937</b>	<b>2,789,416</b>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Changes in Fund Balance - Total Governmental Funds \$ 2,140,490

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

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

Capital Outlay - Depreciable Capital Assets	\$ 356,821	
Depreciation	<u>(902,688)</u>	(545,867)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets when disposed of, resulting in a gain or loss on disposal of capital assets on the statement of activities.

Proceeds from Sale of Capital Assets	(78,034)	
Gain on Disposal of Capital Assets	52,184	
Loss on Disposal of Capital Assets	<u>(18,000)</u>	(43,850)

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

Property Taxes	5,391	
Municipal Income Taxes	166,214	
Charges for Services	6,417	
Intergovernmental	<u>(575,673)</u>	(397,651)

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

Notes Payable	59,584	
General Obligation Bonds Payable	405,000	
OPWC Loans Payable	9,687	
Police Pension Liability	492	
Fire Pension Liability	1,866	
Capital Leases Payable	<u>72,971</u>	549,600

Bond proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (169,980)

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 1,451

Compensated absences expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (27,952)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. (92,456)

Change in Net Asssets of Governmental Activities \$ 1,413,785

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues</u>				
Property Taxes	\$ 455,569	\$ 455,569	\$ 404,737	\$ (50,832)
Municipal Income Taxes	1,746,669	1,746,669	1,971,568	224,899
Other Local Taxes	460,917	460,917	430,050	(30,867)
Charges for Services	934,683	934,683	1,121,772	187,089
Fees, Licenses, and Permits	24,000	24,000	94,432	70,432
Fines and Forfeitures	24,000	24,000	29,637	5,637
Intergovernmental	304,540	304,540	844,193	539,653
Interest	50,000	50,000	175,962	125,962
Other	-	-	14,652	14,652
Total Revenues	<u>4,000,378</u>	<u>4,000,378</u>	<u>5,087,003</u>	<u>1,086,625</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,034,791	1,055,641	956,222	99,419
Fire	877,192	923,642	827,730	95,912
Public Health	322,533	353,543	308,366	45,177
General Government	1,656,433	1,543,430	1,196,800	346,630
Debt Service:				
Principal Retirement	-	-	83,000	(83,000)
Interest and Fiscal Charges	-	-	40,448	(40,448)
Total Expenditures	<u>3,890,949</u>	<u>3,876,256</u>	<u>3,412,566</u>	<u>463,690</u>
Excess of Revenues Over Expenditures	<u>109,429</u>	<u>124,122</u>	<u>1,674,437</u>	<u>1,550,315</u>
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	-	-	39,454	39,454
Transfers Out	(903,664)	(980,665)	(682,815)	297,850
Total Other Financing Sources (Uses)	<u>(903,664)</u>	<u>(980,665)</u>	<u>(643,361)</u>	<u>337,304</u>
Changes in Fund Balance	(794,235)	(856,543)	1,031,076	1,887,619
Fund Balance (Deficit) Beginning of Year	(157,654)	(157,654)	(157,654)	-
Prior Year Encumbrances Appropriated	<u>8,200</u>	<u>8,200</u>	<u>8,200</u>	<u>-</u>
Fund Balance (Deficit) End of Year	<u>\$ (943,689)</u>	<u>\$ (1,005,997)</u>	<u>\$ 881,622</u>	<u>\$ 1,887,619</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF GALION  
CRAWFORD COUNTY

**STATEMENT OF FUND NET ASSETS  
PROPRIETARY FUNDS  
DECEMBER 31, 2006**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<b>Assets</b>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$ 1,331,117	\$ 1,389,869	\$ 507,758	\$ 1,532,090	\$ 4,760,834	\$ -
Cash and Cash Equivalents with Fiscal Agent	-	-	351,783	-	351,783	-
Accounts Receivable	322,223	293,259	2,082,843	61,223	2,759,548	-
Due from Other Governments	-	9,182	-	-	9,182	-
Excise Taxes Receivable	-	-	41,609	-	41,609	-
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	60,586	58,046	103,925	-	222,557	-
Prepaid Items	6,137	5,702	12,155	1,603	25,597	-
Materials and Supplies Inventory	18,378	6,231	-	-	24,609	-
Special Assessments Receivable	10,866	17,730	-	-	28,596	-
Total Current Assets	<u>1,749,307</u>	<u>1,780,019</u>	<u>3,100,073</u>	<u>1,594,916</u>	<u>8,224,315</u>	<u>-</u>
<u>Non-Current Assets</u>						
Special Assessments Receivable	193,236	315,278	-	-	508,514	-
Nondepreciable Capital Assets	882,231	1,227,561	165,114	-	2,274,906	-
Depreciable Capital Assets, Net	7,809,519	4,566,763	5,267,181	771,671	18,415,134	-
Investment in Joint Venture	-	-	1,835,649	-	1,835,649	-
Total Non-Current Assets	<u>8,884,986</u>	<u>6,109,602</u>	<u>7,267,944</u>	<u>771,671</u>	<u>23,034,203</u>	<u>-</u>
Total Assets	<u>10,634,293</u>	<u>7,889,621</u>	<u>10,368,017</u>	<u>2,366,587</u>	<u>31,258,518</u>	<u>-</u>
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	6,620	6,637	8,186	753	22,196	-
Accounts Payable	10,836	15,928	545,494	272	572,530	10,176
Contracts Payable	3,992	1,763	-	-	5,755	-
Due to Other Governments	18,795	18,838	28,351	3,722	69,706	-
Compensated Absences Payable	14,863	18,075	25,944	938	59,820	-
Interfund Payable	93,196	89,877	170,941	21,163	375,177	3,342
Accrued Interest Payable	1,896	1,896	15,622	-	19,414	-
Notes Payable	500,000	500,000	-	-	1,000,000	-
Claims Payable	-	-	-	-	-	198,437
OPWC Loans Payable	10,555	26,907	-	-	37,462	-
OWDA Loans Payable	186,087	37,318	-	-	223,405	-
Electric Improvement Loan Payable	-	-	275,000	-	275,000	-
Capital Leases Payable	-	-	-	26,518	26,518	-
AMP Ohio Payable	-	-	110,586	-	110,586	-
Total Current Liabilities	<u>846,840</u>	<u>717,239</u>	<u>1,180,124</u>	<u>53,366</u>	<u>2,797,569</u>	<u>211,955</u>
<u>Non-Current Liabilities</u>						
Compensated Absences Payable	84,249	112,928	119,097	12,376	328,650	-
Deposits Held and Due to Others	60,586	58,046	103,925	-	222,557	-
OPWC Loans Payable	165,273	161,443	-	-	326,716	-
OWDA Loans Payable	6,671,402	2,771,553	-	-	9,442,955	-
Electric Improvement Loan Payable	-	-	4,652,000	-	4,652,000	-
Capital Leases Payable	-	-	-	119,863	119,863	-
AMP Ohio Payable	-	-	2,068,837	-	2,068,837	-
Total Non-Current Liabilities	<u>6,981,510</u>	<u>3,103,970</u>	<u>6,943,859</u>	<u>132,239</u>	<u>17,161,578</u>	<u>-</u>
Total Liabilities	<u>7,828,350</u>	<u>3,821,209</u>	<u>8,123,983</u>	<u>185,605</u>	<u>19,959,147</u>	<u>211,955</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	1,158,433	2,297,103	505,295	625,290	4,586,121	-
Unrestricted (Deficit)	<u>1,647,510</u>	<u>1,771,309</u>	<u>1,738,739</u>	<u>1,555,692</u>	<u>6,713,250</u>	<u>(211,955)</u>
Total Net Assets (Deficit)	<u>\$ 2,805,943</u>	<u>\$ 4,068,412</u>	<u>\$ 2,244,034</u>	<u>\$ 2,180,982</u>	<u>11,299,371</u>	<u>\$ (211,955)</u>

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

(78,466)

Net assets of business-type activities

\$ 11,220,905

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Operating Revenues</u>						
Charges for Services	\$ 1,613,209	\$ 1,625,096	\$ 11,522,628	\$ 386,216	\$ 15,147,149	\$ 1,052,816
Other	105,020	49,141	245,264	119	399,544	155,587
<b>Total Operating Revenues</b>	<b>1,718,229</b>	<b>1,674,237</b>	<b>11,767,892</b>	<b>386,335</b>	<b>15,546,693</b>	<b>1,208,403</b>
<u>Operating Expenses</u>						
Salaries and Wages	400,658	380,819	491,999	115,995	1,389,471	-
Benefits	226,401	203,069	296,852	57,325	783,647	-
Contractual Services	128,026	181,271	6,764,292	27,924	7,101,513	216,455
Materials and Supplies	173,350	136,319	250,146	31,783	591,598	-
Bad Debt	4,270	8,554	9,032	1,108	22,964	-
Claims	-	-	-	-	-	1,138,703
Depreciation	346,382	212,826	183,880	30,097	773,185	-
Other	93,196	89,877	132,415	21,163	336,651	-
<b>Total Operating Expenses</b>	<b>1,372,283</b>	<b>1,212,735</b>	<b>8,128,616</b>	<b>285,395</b>	<b>10,999,029</b>	<b>1,355,158</b>
<b>Operating Income (Loss)</b>	<b>345,946</b>	<b>461,502</b>	<b>3,639,276</b>	<b>100,940</b>	<b>4,547,664</b>	<b>(146,755)</b>
<u>Non-Operating Revenues (Expenses)</u>						
Interest Revenue	-	-	19,499	-	19,499	-
Interest Expense	(225,545)	(138,918)	(323,211)	-	(687,674)	-
Grants	-	101,514	-	-	101,514	-
Income from Joint Venture	-	-	8,579	-	8,579	-
Loss from Joint Venture	-	-	(106,558)	-	(106,558)	-
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(225,545)</b>	<b>(37,404)</b>	<b>(401,691)</b>	<b>-</b>	<b>(664,640)</b>	<b>-</b>
<b>Income (Loss) before Transfers</b>	<b>120,401</b>	<b>424,098</b>	<b>3,237,585</b>	<b>100,940</b>	<b>3,883,024</b>	<b>(146,755)</b>
Transfers In	85,278	101,376	-	-	186,654	-
Transfers Out	(27,424)	(44,015)	-	(70,720)	(142,159)	-
<b>Changes in Net Assets</b>	<b>178,255</b>	<b>481,459</b>	<b>3,237,585</b>	<b>30,220</b>	<b>3,927,519</b>	<b>(146,755)</b>
<b>Net Assets (Deficit) Beginning of Year</b>	<b>2,627,688</b>	<b>3,586,953</b>	<b>(993,551)</b>	<b>2,150,762</b>		<b>(65,200)</b>
<b>Net Assets (Deficit) End of Year</b>	<b>\$ 2,805,943</b>	<b>\$ 4,068,412</b>	<b>\$ 2,244,034</b>	<b>\$ 2,180,982</b>		<b>\$ (211,955)</b>

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

(54,299)

Change in net assets of business-type activities

\$ 3,873,220

See Accompanying Notes to the Basic Financial Statements



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**CITY OF GALION  
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents						
<u>Cash Flows from Operating Activities</u>						
Cash Received from Customers	\$ 1,569,162	\$ 1,556,420	\$ 11,345,214	\$ 375,977	\$ 14,846,773	\$ -
Cash Received from						
Transactions with Other Funds	-	-	-	-	-	1,052,816
Cash Received from Deposits	28,373	27,338	49,221	-	104,932	-
Cash Received from Other Revenues	105,020	49,141	245,264	119	399,544	156,956
Cash Payments for Salaries and Wages	(428,537)	(419,409)	(541,785)	(106,011)	(1,495,742)	-
Cash Payments for Benefits	(227,956)	(208,230)	(305,986)	(55,656)	(797,828)	-
Cash Payments for Contractual Services	(130,864)	(183,154)	(6,909,495)	(30,188)	(7,253,701)	(214,256)
Cash Payments for Materials and Supplies	(179,183)	(141,548)	(267,052)	(31,782)	(619,565)	-
Cash Payments for Claims	-	-	-	-	-	(1,068,461)
Cash Payments for Other Expenses	(119,026)	(129,297)	(166,796)	(11,156)	(426,275)	-
Cash Payments for Deposits Refunded	(23,470)	(22,913)	(42,226)	-	(88,609)	-
Net Cash Provided by (Used for) Operating Activities	593,519	528,348	3,406,359	141,303	4,669,529	(72,945)
<u>Cash Flows from Noncapital Financing Activities</u>						
Grants	-	92,332	-	-	92,332	-
Advances In	1,088,071	-	-	1,088,072	2,176,143	3,342
Advances Out	-	-	(2,176,143)	-	(2,176,143)	-
Transfers Out	(17,080)	(27,138)	-	-	(44,218)	-
Net Cash Provided by (Used for) Noncapital Financing Activities	1,070,991	65,194	(2,176,143)	1,088,072	48,114	3,342
<u>Cash Flows from Capital and Related Financing Activities</u>						
Principal Paid on OPWC Loans	(10,555)	(26,907)	-	-	(37,462)	-
Principal Paid on OWDA Loans	(157,191)	(34,396)	-	(21,896)	(213,483)	-
Principal Paid on Electric Improvement Loan	-	-	(275,000)	-	(275,000)	-
Principal Paid on Capital Leases	-	-	(19,451)	-	(19,451)	-
Principal Paid on AMP Ohio Payable	-	-	(106,207)	-	(106,207)	-
Interest Paid on OWDA Loans	(164,248)	(69,755)	-	(48,824)	(282,827)	-
Interest Paid on Electric Improvement Loan	-	-	(313,671)	-	(313,671)	-
Interest Paid on Capital Leases	-	-	(1,134)	-	(1,134)	-
Acquisition of Capital Assets	(30,952)	(84,359)	-	-	(115,311)	-
Net Cash Used for Capital and Related Financing Activities	(362,946)	(215,417)	(715,463)	(70,720)	(1,364,546)	-
<u>Cash Flows from Investing Activities</u>						
Interest	-	-	19,499	-	19,499	-
Net Increase (Decrease) in Cash and Cash Equivalents	1,301,564	378,125	534,252	1,158,655	3,372,596	(69,603)
Cash and Cash Equivalents Beginning of Year	90,139	1,069,790	429,214	373,435	1,962,578	69,603
Cash and Cash Equivalents End of Year	<u>\$ 1,391,703</u>	<u>\$ 1,447,915</u>	<u>\$ 963,466</u>	<u>\$ 1,532,090</u>	<u>\$ 5,335,174</u>	<u>\$ -</u>

(continued)

CITY OF GALION  
CRAWFORD COUNTY

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Operating Income (Loss)	345,946	461,502	3,639,276	100,940	4,547,664	(146,755)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>						
Allowance for Uncollectibles	4,270	8,554	9,032	1,108	22,964	-
Depreciation	346,382	212,826	183,880	30,097	773,185	-
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(44,445)	(69,326)	(177,414)	(10,239)	(301,424)	1,369
Decrease in Excise Taxes Receivable	-	-	569	-	569	-
(Increase) Decrease in Prepaid Items	86	1,060	113	(1,491)	(232)	-
Increase in Materials and Supplies Inventory	(7,040)	(297)	-	-	(7,337)	-
Decrease in Special Assessments Receivable	398	650	-	-	1,048	-
Increase (Decrease) in Accrued Wages Payable	(208)	(129)	(2,177)	26	(2,488)	-
Increase (Decrease) in Accounts Payable	(5,897)	(9,700)	(83,548)	(791)	(99,936)	2,199
Increase in Contracts Payable	3,992	1,763	-	-	5,755	-
Increase (Decrease) in Due to Other Governments	(1,367)	(5,099)	(8,961)	1,688	(13,739)	-
Increase (Decrease) in Compensated Absences Payable	(27,671)	(38,461)	(47,609)	9,958	(103,783)	-
Increase (Decrease) in Interfund Payable	(25,830)	(39,420)	(34,871)	10,007	(90,114)	-
Decrease in Retainage Payable	-	-	(78,926)	-	(78,926)	-
Increase in Deposits Held and Due to Others	4,903	4,425	6,995	-	16,323	-
Increase in Claims Payable	-	-	-	-	-	70,242
Net Cash Provided by (Used for) Operating Activities	<u>\$ 593,519</u>	<u>\$ 528,348</u>	<u>\$ 3,406,359</u>	<u>\$ 141,303</u>	<u>\$ 4,669,529</u>	<u>\$ (72,945)</u>

Non-Cash Capital Transaction

During 2006, the Storm Water enterprise fund entered into a capital lease for equipment, in the amount of \$146,381.

At December 31, 2006, the Sewer enterprise fund had a receivable for grants related to capital assets, in the amount of \$9,182.

See Accompanying Notes to the Basic Financial Statements

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**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**A. The City**

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

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

**B. Reporting Entity**

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

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

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

**Discretely Presented Component Unit**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

Egbert M. Freese Foundation The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2006, the City received \$424,398 from the Foundation. The Foundation is a component unit of the City since the nature and significance of the Foundation's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Foundation does not issue separate financial statements. Information on the Foundation may be obtained from the Law Offices of Hottenroth, Garverick, Tilson & Co., L.P.A., 126 South Market Street, P.O. Box 477, Galion, Ohio 44833.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

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

Proprietary Funds

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

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

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

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

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

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

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

C. Measurement Focus

Government-Wide Financial Statements

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



**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2006, but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

**F. Cash and Investments**

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

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

During fiscal year 2006, the City invested in mutual funds. The mutual funds are reported at fair value, which is based on current share price.

Interest earnings are allocated to City funds according to State statutes, City charter, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2006 was \$177,797, which includes \$158,684 assigned from other City funds.

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

**G. Restricted Assets**

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Inventory

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

J. Capital Assets

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

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

**K. Interfund Receivables/Payables**

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

**L. Compensated Absences**

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

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

**M. Accrued Liabilities and Long-Term Obligations**

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

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

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for maintenance and repair of streets and highways, recreation, police and fire department activities, and airport facilities. As of December 31, 2006, the City did not have any net assets restricted by enabling legislation. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

**O. Fund Balance Reserves**

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

**P. Operating Revenues and Expenses**

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

**Q. Interfund Transactions**

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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

**R. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLE**

For 2006, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 47, "Accounting for Termination Benefits". This statement establishes accounting standards for termination benefits.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At December 31, 2006, the following funds had deficit fund balances/net assets:

<u>Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
Street Maintenance	\$902,273
Permissive MVL	94,302
FAA Grant	1,079
CHIP Grant	57,506
Police Pension	13,607
Fire Pension	21,369
Nonmajor Debt Service Fund	
Cheshire Special Assessment	72,196
Nonmajor Capital Projects Fund	
Main Street Grant	6,577
Internal Service Fund	
Self-Insurance	211,955

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE** (continued)

**B. Compliance**

The following accounts had expenditures/expenses in excess of appropriations for the year ended December 31, 2006.

Fund/Department/Object	Appropriations	Expenditures/Expense s	Excess
<b>Governmental Activities</b>			
General Fund			
Victims of Crime			
Benefits	\$3,156	\$3,168	\$12
Police			
Salaries and Wages	417,714	418,038	324
Fire			
Benefits	83,938	84,135	197
Police and Fire Income Tax			
Fire			
Salaries and Wages	257,283	257,518	235
<b>Business-Type Activities</b>			
Storm Water			
Street Sweeper			
Benefits	9,143	9,202	59

The City will review budgetary activity to avoid future violations of budgetary compliance.

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

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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



**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

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

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

Changes in Fund Balance

	General
GAAP Basis	\$1,204,926
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2005, Received in Cash 2006	681,640
Accrued 2006, Not Yet Received in Cash	(687,084)
Expenditure Accruals:	
Accrued 2005, Paid in Cash 2006	(375,396)
Accrued 2006, Not Yet Paid in Cash	290,835
Cash Adjustments:	
Unrecorded Activity 2005	9,982
Unrecorded Activity 2006	(11,917)
Prepaid Items	1,090
Note Principal Retirement	(83,000)
Budget Basis	\$1,031,076

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

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

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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

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

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

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

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

**Investments**

As of December 31, 2006, the City's investments consisted of mutual funds, with a fair value of \$77,822 and an average maturity of 44 days. The mutual funds carry a credit rating of AAA from Moody's. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that mutual funds consist of obligations listed in items (1) or (2) on page 42.

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2006, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for notes receivable, special assessments, and the allowance for uncollectibles related to utility services. Notes receivable, in the amount of \$638,448, will not be received within one year. Special assessments, in the amount of \$508,514, will not be received within one year.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 7 - RECEIVABLES** (continued)

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$367,610	\$338,249	\$2,380,445	\$70,682	\$3,156,986
Less Allowance for Uncollectibles	(45,387)	(44,990)	(297,602)	(9,459)	(397,438)
Net Accounts Receivable	<u>\$322,223</u>	<u>\$293,259</u>	<u>\$2,082,843</u>	<u>\$61,223</u>	<u>\$2,759,548</u>

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant. The notes have an annual interest rate of 3 to 5.75 percent and are paid over a period of 5 to 15 years.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$23,395
Personal Property Phase-Out	3,615
Local Government	113,045
Local Government Revenue Assistance	70,719
Beer and Liquor Permits	105
Cigarette Taxes	279
Estate Taxes	127,325
Fines and Forfeitures	1,262
Bullet Proof Vest	3,738
Victims of Crime	11,642
Total General Fund	<u>355,125</u>
Nonmajor Funds	
Police Drug	
Crawford County	265
Street Maintenance	
Gasoline Tax	158,084
Motor Vehicle License Tax	38,491
Total Street Maintenance	<u>196,575</u>
State Highway	
Gasoline Tax	12,818
Motor Vehicle License Tax	3,121
Total State Highway	<u>15,939</u>

(continued)

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 7 - RECEIVABLES** (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds	
FAA	
FAA	\$20,491
Police Pension	
Homestead and Rollback	2,140
Personal Property Phase-Out	329
Total Police Pension	2,469
Fire Pension	
Homestead and Rollback	2,140
Personal Property Phase-Out	329
Total Fire Pension	2,469
Total Nonmajor Funds	238,208
Total Governmental Activities	\$593,333
 Business-Type Activities	
Sewer	
Stag	\$9,182

**NOTE 8 - MUNICIPAL INCOME TAXES**

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2004, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2006, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 9 - PROPERTY TAXES** (continued)

The full tax rate for all City operations for the year ended December 31, 2006, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$543,210
Residential	96,098,720
Commercial	18,198,320
Industrial	8,084,820
Public Utility Property	
Real	28,350
Personal	1,870,260
Tangible Personal Property	9,733,787
Total Assessed Value	<u>\$134,557,467</u>

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,492,312	\$0	(\$25,850)	\$3,466,462
Depreciable Capital Assets				
Buildings	854,500	0	0	854,500
Improvements Other Than Buildings	38,300	0	0	38,300
Streets	18,426,846	127,203	0	18,554,049
Bridges	1,236,330	0	0	1,236,330
Equipment	416,238	39,638	0	455,876
Vehicles	1,887,549	189,980	(90,000)	1,987,529
Total Depreciable Capital Assets	<u>22,859,763</u>	<u>356,821</u>	<u>(90,000)</u>	<u>23,126,584</u>
Less Accumulated Depreciation for				
Buildings	(300,337)	(16,940)	0	(317,277)
Improvements Other Than Buildings	(22,980)	(1,532)	0	(24,512)
Streets	(9,168,667)	(736,069)	0	(9,904,736)
Bridges	(425,362)	(24,727)	0	(450,089)
Equipment	(209,964)	(26,567)	0	(236,531)
Vehicles	(815,430)	(96,853)	72,000	(840,283)
Total Accumulated Depreciation	<u>(10,942,740)</u>	<u>(902,688)</u>	<u>72,000</u>	<u>(11,773,428)</u>
Total Depreciable Capital Assets, Net	<u>11,917,023</u>	<u>(545,867)</u>	<u>(18,000)</u>	<u>11,353,156</u>
Governmental Activities Capital Assets, Net	<u>\$15,409,335</u>	<u>(\$545,867)</u>	<u>(\$43,850)</u>	<u>\$14,819,618</u>

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 10 - CAPITAL ASSETS** (continued)

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
<b>Business-Type Activities:</b>				
<b>Nondepreciable Capital Assets</b>				
Land	\$2,169,744	\$0	\$0	\$2,169,744
Construction in Progress	0	105,162	0	105,162
<b>Total Nondepreciable Capital Assets</b>	<b>2,169,744</b>	<b>105,162</b>	<b>0</b>	<b>2,274,906</b>
<b>Depreciable Capital Assets</b>				
Buildings	12,830,059	0	0	12,830,059
Improvements Other Than Buildings Water, Sewer, Electric, and Storm Water Lines	6,478,200	0	0	6,478,200
Equipment	8,336,227	0	0	8,336,227
Vehicles	2,067,233	156,530	0	2,223,763
<b>Total Depreciable Capital Assets</b>	<b>30,944,929</b>	<b>156,530</b>	<b>0</b>	<b>31,101,459</b>
<b>Less Accumulated Depreciation for</b>				
Buildings	(6,191,022)	(371,943)	0	(6,562,965)
Improvements Other Than Buildings Water, Sewer, Electric, and Storm Water Lines	(1,492,507)	(113,481)	0	(1,605,988)
Equipment	(2,401,997)	(158,628)	0	(2,560,625)
Vehicles	(1,080,739)	(64,061)	0	(1,144,800)
<b>Total Accumulated Depreciation</b>	<b>(11,913,140)</b>	<b>(773,185)</b>	<b>0</b>	<b>(12,686,325)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>19,031,789</b>	<b>(616,655)</b>	<b>0</b>	<b>18,415,134</b>
<b>Business-Type Activities Capital Assets, Net</b>	<b>\$21,201,533</b>	<b>(\$511,493)</b>	<b>\$0</b>	<b>\$20,690,040</b>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$16,668
Security of Persons and Property - Fire	62,318
Public Health	2,331
Leisure Time Activities	26,088
Transportation	792,671
General Government	2,612
<b>Total Depreciation Expense - Governmental Activities</b>	<b>\$902,688</b>



**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 11 - INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2006, the General Fund had an interfund receivable, in the amount of \$1,197,573; \$6,679 for a short-term loan to other governmental funds, \$815,717 from other governmental funds to alleviate a deficit cash balance, and \$93,196 from the Water enterprise fund, \$89,877 from the Sewer enterprise fund, \$170,941 from the Electric enterprise fund, and \$21,163 from the Storm Water enterprise fund for services provided to those funds.

At December 31, 2006, other governmental funds had an interfund receivable, in the amount of \$329,658; \$2,198 for a short-term loan to other governmental funds and \$327,460 from other governmental funds to alleviate a deficit cash balance.

At December 31, 2006, other governmental funds had an interfund receivable, in the amount of \$3,342, from the internal service Self Insurance Fund to alleviate a deficit cash balance.

**NOTE 12 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with Arch Insurance Company and Travelers Property Casualty Company of America for the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$13,106,627	\$0
Earthquake	500,000	25,000
General Liability		
Per Occurrence	1,000,000	0
Aggregate	3,000,000	0
Employee Benefits Liability		
Each Employee Limit	1,000,000	1,000
Aggregate	3,000,000	1,000
Stop Gap Liability	1,000,000	0
Public Officials Liability	1,000,000	1,000
Law Enforcement Liability	1,000,000	5,000
Automobile Liability	1,000,000	1,000
Commercial Umbrella	5,000,000	10,000
Crime Coverage	250,000	250
Boiler and Machinery	3,242,955	0

There has been no significant reduction in insurance coverage from 2005, and no insurance settlement has exceeded insurance coverage during the last three years.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 12 - RISK MANAGEMENT** (continued)

The City offers medical, vision, and dental insurance to all employees through a self-insured program. All funds of the City participate in the program and make payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. The City purchased stop loss insurance for claims in excess of \$60,000 per individual per year and \$1,000,000 total aggregate lifetime. Settled claims exceeded this coverage in 2004; however, these claims did not exceed the stop loss coverage.

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

The changes in the claims liability for 2006 and 2005 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2006	\$128,195	\$1,138,703	\$1,068,461	\$198,437
2005	189,347	1,002,444	1,063,596	128,195

For 2006, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

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, 2006, members of all three plans were required to contribute 9 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2006 was 9.2 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, 2006, 2005, and 2004 was \$219,761, \$254,167, and \$289,037, respectively; 81 percent has been contributed for 2006 and 100 percent has been contributed for 2005 and 2004. The unpaid contribution for 2006, in the amount of \$41,861, is recorded as a liability. There were no contributions to the member-directed plan for 2006 made by the City or made by plan members.

**B. Ohio Police and Fire Pension Fund**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 13 - DEFINED BENEFIT PENSION PLANS** (continued)

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contribution to the OPF for the years ended December 31, 2006, 2005, and 2004 was \$183,959, \$221,149, and \$241,645, respectively; 84 percent has been contributed for 2006 and 100 percent has been contributed for 2005 and 2004. The unpaid contribution for 2006, in the amount of \$28,712, is recorded as a liability.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.7 percent of covered payroll; 4.5 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, 2005, include a rate of return on investments of 6.5 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 .5 to 6 percent annually for the next nine years and 4 percent annually after nine 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$107,492. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2005 (the latest information available), was \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 14 - POSTEMPLOYMENT BENEFITS** (continued)

**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 2006. 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 2006 that were used to fund postemployment benefits were \$45,386 for police and \$54,916 for firefighters. The OPF's total health care expense for the year ended December 31, 2005 (the latest information available), was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OPF participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**NOTE 15 - COMPENSATED ABSENCES**

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 16 - NOTES PAYABLE**

The City's note transactions for the year ended December 31, 2006, were as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
<u>Governmental Activities</u>					
<u>Revenue Anticipation Notes</u>					
General Fund					
2005 Local Government Fund Note	5.875%	\$818,000	\$0	\$83,000	\$735,000
<u>General Obligation Bond Anticipation Notes</u>					
Special Revenue Funds					
2004 Airport Note	4.55%	102,500	0	8,750	93,750
2004 Recreation Note	4.55	240,000	0	17,500	222,500
2004 Fire Truck Note	4.55	30,000	0	10,000	20,000
2004 Street Improvement Note	4.55	326,666	0	23,334	303,332
Total General Obligation Bond Anticipation Notes		699,166	0	59,584	639,582
Total Governmental Activities		<u>\$1,517,166</u>	<u>\$0</u>	<u>\$142,584</u>	<u>\$1,374,582</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
Enterprise Funds					
2004 Cheshire Improvement Note	4.55%	\$1,000,000	\$0	\$0	\$1,000,000

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

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 16 - NOTES PAYABLE** (continued)

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

Year	Revenue Anticipation Notes		General Obligation Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2007	\$87,000	43,181	\$639,582	\$7,952
2008	93,000	38,070	0	0
2009	98,000	32,606	0	0
2010	104,000	26,849	0	0
2011	111,000	20,739	0	0
2012-2013	242,000	21,561	0	0
	<u>\$735,000</u>	<u>\$183,006</u>	<u>\$639,582</u>	<u>\$7,952</u>

**NOTE 17 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1990 Library						
(Original Amount \$800,000)	7.25-7.75%	\$325,000	\$0	\$55,000	\$270,000	\$60,000
2004 Various Purpose						
(Original Amount \$3,500,000)	5.00	3,150,000	0	350,000	2,800,000	350,000
2006 Street Equipment Acquisition						
(Original Amount \$169,980)	4.25	0	169,980	0	169,980	33,990
Total General Obligation Bonds		<u>3,475,000</u>	<u>169,980</u>	<u>405,000</u>	<u>3,239,980</u>	<u>443,990</u>
Other Long-Term Obligations						
OPWC Loans						
1996 South Boston						
(Original Amount \$193,724)	0.00	9,687	0	9,687	0	0
Compensated Absences Payable		466,771	198,182	170,230	494,723	101,055
Police Pension Liability		28,087	0	492	27,595	513
Fire Pension Liability		106,462	0	1,866	104,596	1,946
Capital Leases Payable		72,971	0	72,971	0	0
Total Other Long-Term Obligations		<u>683,978</u>	<u>198,182</u>	<u>255,246</u>	<u>626,914</u>	<u>103,514</u>
Total Governmental Activities		<u>\$4,158,978</u>	<u>\$368,162</u>	<u>\$660,246</u>	<u>\$3,866,894</u>	<u>\$547,504</u>

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS** (continued)

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
<u>Business-Type Activities</u>						
Other Long-Term Obligations						
OPWC Loans						
Railroad Street Waterline (Original Amount \$71,104)	0.00%	\$56,883	\$0	\$3,555	\$53,328	\$3,555
West End Waterline (Original Amount \$140,000)	0.00	129,500	0	7,000	122,500	7,000
Cherry Street Sewer (Original Amount \$541,829)	0.00	215,257	0	26,907	188,350	26,907
Total OPWC Loans		401,640	0	37,462	364,178	37,462
OWDA Loans						
#2735 Raw Water Line (Original Amount \$480,881)	2.00	334,432	0	17,942	316,490	18,301
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	3,577,990	0	103,558	3,474,432	105,640
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	950,890	0	34,298	916,592	35,677
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,600,253	0	30,661	1,569,592	0
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,232,112	0	21,896	1,210,216	22,776
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	2,218,464	0	39,426	2,179,038	41,011
Total OWDA Loans		9,914,141	0	247,781	9,666,360	223,405
Electric Improvement Loan (Original Amount \$5,225,000)	7.00	5,202,000	0	275,000	4,927,000	275,000
Compensated Absences Payable		492,253	22,028	125,811	388,470	59,820
Capital Leases Payable		19,451	146,381	19,451	146,381	26,518
AMP Ohio Payable - JV 2		2,285,630	0	106,207	2,179,423	110,586
Total Business-Type Activities		\$18,315,115	\$168,409	\$811,712	\$17,671,812	\$732,791

1990 Library General Obligation Bonds

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



**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 17 - LONG-TERM OBLIGATIONS** (continued)

2004 Various Purpose General Obligation Bonds

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

2006 Street Equipment Acquisition General Obligation Bonds

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

OPWC Loans

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

OWDA Loans

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

Electric Improvement Loan

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

Compensated Absences Payable

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

Police and Fire Pension Liability

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

Capital Leases Payable

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS** (continued)

AMP Ohio Payable - JV2

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

The City's legal debt margin was \$10,248,972 at December 31, 2006.

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

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

	Governmental Activities			
	General Obligation Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest
2007	\$443,990	\$168,149	\$2,459	\$5,592
2008	448,990	144,891	2,565	5,486
2009	454,000	120,573	2,674	5,377
2010	459,000	96,203	2,789	5,262
2011	384,000	71,445	2,910	5,141
2012-2016	1,050,000	105,144	16,534	23,724
2017-2021	0	0	20,403	19,782
2022-2026	0	0	25,175	15,082
2027-2031	0	0	31,068	9,190
2032-2035	0	0	25,614	2,200
	\$3,239,980	\$706,405	\$132,191	\$96,836

**CITY OF GALION  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 17 - LONG-TERM OBLIGATIONS** (continued)

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

Year	Business-Type Activities		
	OPWC Loans	OWDA Loans	
	Principal	Principal	Interest
2007	\$37,462	\$223,405	\$245,688
2008	37,462	229,895	239,198
2009	37,462	236,589	232,504
2010	37,462	243,507	225,586
2011	37,462	250,650	218,443
2012-2016	106,591	1,368,869	976,596
2017-2021	52,777	1,586,308	759,157
2022-2026	17,500	1,566,532	512,166
2027-2031	0	1,578,852	284,428
2032-2035	0	812,161	67,353
	\$364,178	\$8,096,768	\$3,761,119

Year	Electric Improvement Loan		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2007	\$275,000	\$336,030	\$110,586	\$108,684
2008	275,000	317,663	116,061	103,154
2009	275,000	297,530	121,809	97,351
2010	275,000	278,280	127,831	91,261
2011	275,000	259,030	134,674	84,550
2012-2016	1,375,000	1,007,532	786,694	308,990
2017-2021	1,375,000	525,400	781,768	94,981
2022-2024	802,000	84,128	0	0
	\$4,927,000	\$3,105,593	\$2,179,423	\$888,971

**NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE**

The City has entered into capitalized leases for equipment and vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds. Principal payments in 2006 were \$72,971 for governmental funds and \$19,451 for enterprise funds.

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

**NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE** (continued)

	Governmental Activities	Business-Type Activities
Depreciable Capital Assets		
Equipment	\$0	\$146,381
Vehicles	247,408	65,949
Total Depreciable Capital Assets	247,408	212,330
Less Accumulated Depreciation for		
Vehicles	(65,976)	(21,985)
Total	\$181,432	\$190,345

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006.

Year	Business-Type Activities	
	Principal	Interest
2007	\$26,518	\$7,246
2008	27,830	5,933
2009	29,208	4,556
2010	30,654	3,110
2011	32,171	1,592
	\$146,381	\$22,437

**NOTE 19 - INTERFUND TRANSFERS**

During 2006, the General Fund made transfers to other governmental funds, in the amount of \$682,815; \$599,713 to subsidize various programs in other funds and \$83,102 to move receipts as debt payments came due.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$49,918 and \$66,016, to move receipts as debt payments became due.

The Water enterprise fund made transfers to other governmental funds, in the amount of \$27,424, to move receipts as debt payments became due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$44,015, to move receipts as debt payments became due.

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 20 - EGBERT M. FREESE FOUNDATION**

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

The Foundation does not prepare financial statements. The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2006, the Foundation's investments consisted of the following:

	Fair Value
Equities	\$5,933,089
Fixed Income	3,465,723
Cash Equivalents	269,688
Other Assets	200
	<u>\$9,668,700</u>

**NOTE 21 - JOINT VENTURES**

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

The City is a participant, with twenty other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$10,085 to the joint venture in 2006 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the Joint Venture participants are billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$38,319 at December 31, 2006. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 21 - JOINT VENTURES** (continued)

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of operation and maintenance expenses of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes, or other indebtedness payable from any revenues of the system. Under the terms of the Agreement, each financing participant is to fix, charge, and collect rates, fees, and charges at least sufficient enough to maintain a debt coverage ratio equal to 110 percent of the sum of JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2006, the City met its debt coverage obligation.

JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The project consists of 138.65 MW of distributed generation (of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. The City's net obligation for these bonds at December 31, 2006, was \$2,179,423 (including amounts held in the bond fund, previous billings to members, interest payable, and debt service paid and collected). The City's investment and its share of the operating results of JV2 are reported in the City's Electric enterprise fund. The City's investment in JV2 was \$1,797,330 at December 31, 2006. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**NOTE 22 - JOINTLY GOVERNED ORGANIZATION**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 22 - JOINTLY GOVERNED ORGANIZATION** (continued)

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

**NOTE 23 - INSURANCE POOL**

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

**NOTE 24 - RELATED ORGANIZATION**

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

**NOTE 25 - FISCAL EMERGENCY**

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Continued)**

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**NOTE 25 - FISCAL EMERGENCY** (continued)

The more significant steps taken by the City to alleviate the fiscal emergency conditions include staff reductions, spending cuts, an additional .5 percent income tax for police and fire operations, increased utility rates for electric, water, and sewer, and local government fund borrowing (a provision of Section 118.07 of the Ohio Revised Code). As of December 31, 2006, the City has not eliminated all of the fiscal emergency conditions and is currently unable to identify a date by which these conditions will be eliminated.

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

**NOTE 26 - CONTINGENT LIABILITIES**

**A. Litigation**

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

**B. Federal and State Grants**

For the period January 1, 2006, to December 31, 2006, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.



**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDING DECEMBER 31, 2006**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b><u>U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants/State's Program (Downtown Grant)	A-T-04-124-1	14.228	\$ 228,629
Community Development Block Grants/State's Program (Formula Grant)	A-F-05-124-1	14.228	53,922
Community Development Block Grants/State's Program (Revolving Loan)	A-E-03-124-1	14.228	49,842
Community Development Block Grants/State's Program (Revolving Loan)	A-E-05-124-1	14.228	592,865
Community Development Block Grants/State's Program (CHIP Grant)	A-C-05-124-1	14.228	24,870
Community Development Block Grants/State's Program (CHIP Grant)	A-C-05-124-2	14.228	146,101
Total CHIP Grant			<u>170,971</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<b><u>1,096,229</u></b>
<b><u>U. S. DEPARTMENT OF HOMELAND SECURITY</u></b>			
<i>Passed through the Ohio Emergency Management Agency</i>			
Assistance to Firefighters Grant	EMW-2006-FG-18366	97.044	<u>26,665</u>
<b>Total U.S. Department of Homeland Security</b>			<b><u>26,665</u></b>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
<i>Passed through Ohio Attorney General</i>			
Crime Victim Assistance	2006VAGENE469	16.575	11,416
Crime Victim Assistance	2007VAGENE469	16.575	3,879
Total Crime Victim Assistance			<u>15,295</u>
<i>Passed through Ohio Office of Justice Programs</i>			
Bulletproof Vest Partnership Program	2006BUBX03019940	16.607	<u>5,397</u>
<b>Total U.S. Department of Justice</b>			<b><u>20,692</u></b>
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
<i>Passed through Ohio Environmental Protection Agency</i>			
Surveys, Studies, Investigations, and Special Purpose Grants within the Office of the Administrator	(STAG) XP-9657001-0	66.610	<u>82,597</u>
<b>Total U.S. Environmental Protection Agency</b>			<b><u>82,597</u></b>
<b><u>U.S. DEPARTMENT OF TRANSPORTATION</u></b>			
Airport Improvement Program	N/A	20.106	<u>570</u>
<b>Total U.S. Department of Transportation</b>			<b><u>570</u></b>
<b>TOTAL FEDERAL AWARDS EXPENDITURES</b>			<b><u>\$ 1,226,753</u></b>

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

**CITY OF GALION  
CRAWFORD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

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

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2006, the gross amount of loans outstanding under this program was \$694,760.

**NOTE C – MATCHING REQUIREMENTS**

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, 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, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 29, 2007, wherein we noted the City was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. Furthermore, the financial statements of the Freese Foundation Component Unit, the City's discretely presented component unit, have not been audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-003 through 2006-009.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-003, 2006-007, and 2006-008 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated October 29, 2007.

#### **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 2006-001 through 2006-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated October 29, 2007.

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



**Mary Taylor, CPA**  
Auditor of State

October 29, 2007



# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the City Council:

#### Compliance

We have audited the compliance of the City of Galion, Crawford County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2006. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to the major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Galion, Crawford County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule of findings as item 2006-010.

### Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as finding 2006-010 to be a significant deficiency.

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

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



**Mary Taylor, CPA**  
Auditor of State

October 29, 2007

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	CFDA #14.228 – Community Development Block Grants/State's Program
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133**

<b>Finding Number</b>	<b>2006-001</b>
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**Noncompliance  
Annual Report Filing and Publishing**

Ohio Rev. Code Section 117.38 requires cash basis entities to file annual reports with the Auditor of State within 60 days of the fiscal year end, and GAAP-basis entities to file annual reports within 150 days of fiscal year end. Any public office which does not file the report by the required date may be assessed a penalty of twenty-five dollars for each day the report remains unfiled, not to exceed seven hundred fifty dollars. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-001 (Continued)</b>
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**Noncompliance (Continued)  
Annual Report Filing and Publishing (Continued)**

The City was granted an extension for the 2006 annual report extending the filing deadline to July 31, 2007. As of October 29, 2007, the City has not filed its 2006 report. Additionally, the City has not published the notice that the 2006 annual report is available for public inspection.

We recommend the City file its annual report by the required date and publish a notice that the annual report is available for public inspection.

<b>Finding Number</b>	<b>2006-002</b>
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**Noncompliance  
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 Finance Director is attached thereto. The Finance Director 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a Finance Director'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 section 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

- 1. "Then and Now" Certificate** – If the Finance Director can certify that both at the time that the contract or order was made ("then"), and at the time that the Finance Director 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 Finance Director 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.



CITY OF GALION  
CRAWFORD COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)

Finding Number

2006-002 (Continued)

Noncompliance (Continued)  
Certification of Expenditures (Continued)

2. **Blanket Certificate** – Finance Directors may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Five percent of transactions tested were not signed by either the Finance Director or the City Manager. In addition to this, thirty-five percent of the transactions tested were not certified at the time the commitment was incurred and there was no evidence that the City followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the City certify all 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 at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Finance Director should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-003</b>
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**Noncompliance  
Significant Deficiency / Material Weakness  
Reporting Entity**

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

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

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

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-004</b>
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**Significant Deficiency  
Cellular Phone Policy**

In a memo sent by the previous City Manager to all City employees on September 3, 2002, the City Manager authorized all City employees to receive a cellular phone. The memo explains that all City employees will be able to use the phone for personal calls on the job, as long as those calls did not interfere with City operations or use of City time. Also, City employees were provided authorization to use the phones to make any calls, except out of state, during non-work hours. This memo established that each individual employee would be charged a monthly fee through a payroll deduction to pay a portion of the monthly service charge for the phone; the remaining cost of each phone would be paid by the City. Additionally, in another memo, sent May 3, 2004, the previous City Manager indicated that City phones will only be assigned as absolutely necessary and that all Department Heads should submit a list of phones, by position, that are considered necessary for operations. Any phones not indicated by Department Heads will be removed from the City's plan. In 2006, the City discontinued providing the cell phones to employees who did not have a need for such a phone in performing their work duties. However, the permitted users and usages of cellular phones were not specified in a policy established by City Council.

Cellular phones may be necessary for certain City employees in the performance of their job duties, however, the users and usages of these phones should be specified in a policy established by City Council. Lack of such a policy limits the ability of City Council and management to ensure appropriate cell phone usage. Additionally, establishment of a cellular phone policy clarifies the requirements and expectations of City Council and management.

We recommend City Council establish a written policy over cellular phone users and usages at the City. This policy should, at a minimum, identify authorized users; guidelines for allowable use; method of reimbursement; specific unallowable uses; monitoring of use by appropriate levels of management; and other guidelines deemed appropriate by City Council. We further recommend the City contact their local IRS representative to address any potential taxable fringe benefits related to the use of these cellular phones.

<b>Finding Number</b>	<b>2006-005</b>
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**Significant Deficiency  
Negative Leave Balances**

During 2006, twenty-five employees had negative compensatory time balances at some point during the year. These negative balances were because of improper imputing of earned and used leave in the system as well as employees using more leave than they had earned. Additionally, some employees' leave balances remained negative for several pays before an error was determined and corrected.

Lack of monitoring leave balances may result in employees using leave that has not been earned.

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-005 (Continued)</b>
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**Significant Deficiency (Continued)  
Negative Leave Balances (Continued)**

We recommend the City compare leave balances in the system with leave balances maintained within each department, each time payroll is processed, in order to properly and timely record earned and used leave.

<b>Finding Number</b>	<b>2006-006</b>
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**Significant Deficiency  
Self Insurance Administrative and Stop Loss Fees**

In 2006, the City contracted with Medical Mutual to administer its self insurance program. As part of this contract, the City pays Medical Mutual monthly administrative and stop loss fees which are calculated based on number of employees in each plan and an established rate per employee. Medical Mutual forwards a copy of the administrative and stop loss fee calculations to the City along with the monthly billing.

The City does not routinely review each monthly calculation of administrative and stop loss fees for proper enrollment figures and rates. Lack of such review may lead to the City being overcharged by Medical Mutual for administrative and stop loss fees due to errors in the monthly fee calculations.

We recommend the City implement procedures to review the monthly calculations of administrative and stop loss fees charged by Medical Mutual. Plan enrollment figures used in the calculation should be compared to City records to ensure accuracy and the rate used should be verified based on the established rate set forth in the contract with Medical Mutual. Furthermore, review of the monthly fee calculations should be documented to allow management to ensure proper internal control procedures are being followed over self insurance disbursements.

<b>Finding Number</b>	<b>2006-007</b>
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**Significant Deficiency / Material Weakness  
Review of Detailed Monthly Financial Reports**

During 2006, City Council was provided with monthly YTD Fund Summary Reports, which show beginning and ending fund balances and year to date budgeted and actual receipts and expenditures by fund, for their review. However, no detailed reports of financial activity, such as a monthly check register or general journal, were provided to City Council for their review.

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

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-007 (Continued)</b>
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**Significant Deficiency / Material Weakness (Continued)  
Review of Detailed Monthly Financial Reports (Continued)**

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

<b>Finding Number</b>	<b>2006-008</b>
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**Significant Deficiency / Material Weakness  
Review of Bank Reconciliations and Original Bank Statements**

During 2006, bank reconciliations were performed by the Finance Director's Office. However, these monthly bank reconciliations and original bank statements were not regularly reviewed by the City Council or the City Manager.

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

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

<b>Finding Number</b>	<b>2006-009</b>
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**Significant Deficiency  
Self Insurance Fund Activity**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-009 (Continued)</b>
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**Significant Deficiency (Continued)  
Self Insurance Fund Activity (Continued)**

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

<b>Finding Number</b>	<b>2006-010</b>
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**Noncompliance/Significant Deficiency  
Schedule of Federal Awards Expenditures**

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

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

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

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS AND A-133 (Continued)</b>
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<b>Finding Number</b>	<b>2006-010 (Continued)</b>
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**Noncompliance/Significant Deficiency (Continued)  
Schedule of Federal Awards Expenditures(Continued)**

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

The City does not have a procedure in place to readily identify its federal awards expenditures. This resulted in significant modifications to the original schedule of federal awards expenditures prepared by the City for 2006. Failure to identify federal awards and accurately prepare a schedule of federal awards expenditures may result in noncompliance with the Circular and may compromise the City's ability to obtain federal awards in the future.

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

**Officials' Response**

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

**CITY OF GALION  
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A -133 § .315 (b)  
DECEMBER 31, 2006**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i></b>
2005-001	Finding for Recovery – Personal Leave	Yes	Fully corrected, repaid under audit.
2005-002	Certification of Expenditures	No	Not corrected, this comment is being repeated as finding 2006-002.
2005-003	Review of Detailed Monthly Financial Reports	No	Not corrected, this comment is being repeated as finding 2006-007.
2005-004	Review of Bank Reconciliations and Original Bank Statements	No	Not corrected, this comment is being repeated as finding 2006-008.
2005-005	Reporting Entity	No	Not corrected, this comment is being repeated as finding 2006-003.





**Mary Taylor, CPA**  
Auditor of State

**CITY OF GALION**

**CRAWFORD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 12, 2008**