

**CITY OF GALION
CRAWFORD COUNTY
Regular Audit
For the Year Ended December 31, 2012**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Members of Council
City of Galion
115 Harding Way East
Galion, Ohio 44833

We have reviewed the *Independent Auditors' Report* of the City of Galion, Crawford County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 5, 2013

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Crawford County
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INDEPENDENT AUDITOR'S REPORT

September 30, 2013

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

To the Members of Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio, as of December 31, 2012, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Police and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 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.

As discussed in Note 3 to the financial statements, during 2012, the City adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,



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

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CITY OF GALION
Crawford County
Management's Discussion and Analysis
For the Year Ended December 31, 2012
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, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2012 are as follows:

In total, the City's net position increased over 7 percent from the prior year; 4 percent for governmental activities and almost 11 percent for business-type activities.

General revenues made up 72 percent of the total revenues for governmental activities in 2012, of which, almost 47 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

The City has been in fiscal emergency since August 2004; however, has made significant progress in resolving the financial issues which put the City into fiscal emergency. The Street Maintenance Fund, which was the last of the City's significant fund deficits, had a positive balance as of the end of 2012.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2012. 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.

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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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 dental and vision benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2012 and 2011.

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Assets</u>						
Current and Other Assets	\$11,517,988	\$10,630,277	\$22,710,670	\$22,320,613	\$34,228,658	\$32,950,890
Capital Assets, Net	15,133,750	15,494,106	28,647,703	27,853,611	43,781,453	43,347,717
Total Assets	<u>26,651,738</u>	<u>26,124,383</u>	<u>51,358,373</u>	<u>50,174,224</u>	<u>78,010,111</u>	<u>76,298,607</u>
<u>Liabilities</u>						
Current and Other Liabilities	735,222	1,116,461	2,362,501	2,273,263	3,097,723	3,389,724
Long-Term Liabilities	2,736,922	2,670,261	23,280,367	24,694,239	26,017,289	27,364,500
Total Liabilities	<u>3,472,144</u>	<u>3,786,722</u>	<u>25,642,868</u>	<u>26,967,502</u>	<u>29,115,102</u>	<u>30,754,224</u>
<u>Deferred Inflows of Resources</u>	<u>364,903</u>	<u>420,807</u>	<u>0</u>	<u>0</u>	<u>364,903</u>	<u>420,807</u>
<u>Net Position</u>						
Net Investment in Capital Assets	13,982,142	14,009,411	10,979,630	10,291,042	24,961,772	24,300,453
Restricted	3,810,404	2,869,518	0	0	3,810,404	2,869,518
Unrestricted	5,022,145	5,037,925	14,735,875	12,915,680	19,758,020	17,953,605
Total Net Position	<u>\$22,814,691</u>	<u>\$21,916,854</u>	<u>\$25,715,505</u>	<u>\$23,206,722</u>	<u>\$48,530,196</u>	<u>\$45,123,576</u>

Governmental activities had an overall increase in net position of 4 percent from the prior year. The increase in current and other assets is primarily due to an increase in cash and cash equivalents. Much of this increase is the result of bond anticipation note proceeds which were not spent as of year end. This increase is also reflected in the increase in restricted net assets. The decrease in current and other liabilities is largely due to the retirement of bond anticipation notes.

The only change of note for business-type activities was the decrease in long-term liabilities resulting from scheduled principal retirement.

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Table 2 reflects the change in net position for 2012 and 2011.

Table 2
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$1,461,914	\$1,496,727	\$17,182,159	\$16,824,104	\$18,644,073	\$18,320,831
Operating Grants, Contributions, and Interest	736,835	805,902	0	77,029	736,835	882,931
Capital Grants and Contributions	193,998	121,073	0	119,737	193,998	240,810
Total Program Revenues	2,392,747	2,423,702	17,182,159	17,020,870	19,574,906	19,444,572
General Revenues						
Property Taxes Levied for General Purposes	358,261	345,547	0	0	358,261	345,547
Property Taxes Levied for Police and Fire Pension	65,234	62,930	0	0	65,234	62,930
Municipal Income Taxes Levied for General Purposes	2,000,730	2,227,063	0	0	2,000,730	2,227,063
Municipal Income Taxes Levied for Police and Fire	1,777,718	1,983,661	0	0	1,777,718	1,983,661
Municipal Income Taxes Levied for Recreation	223,014	243,353	0	0	223,014	243,353
Other Local Taxes	469,946	471,432	0	0	469,946	471,432
Grants and Entitlements not Restricted to Specific Programs	542,428	506,561	0	0	542,428	506,561
Franchise Fees	128,956	123,497	0	0	128,956	123,497
Interest	24,369	25,483	4,303	4,860	28,672	30,343
Other	620,049	458,808	289,287	151,556	909,336	610,364
Total General Revenues	6,210,705	6,448,335	293,590	156,416	6,504,295	6,604,751
Total Revenues	8,603,452	8,872,037	17,475,749	17,177,286	26,079,201	26,049,323
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,833,718	1,825,098	0	0	1,833,718	1,825,098
Fire	1,939,221	1,856,812	0	0	1,939,221	1,856,812
Public Health	483,271	477,764	0	0	483,271	477,764
Leisure Time Activities	227,646	234,443	0	0	227,646	234,443
Community Environment	157,830	313,795	0	0	157,830	313,795
Transportation	1,753,591	1,801,431	0	0	1,753,591	1,801,431
General Government	1,274,710	1,168,930	0	0	1,274,710	1,168,930
Interest and Fiscal Charges	97,312	133,345	0	0	97,312	133,345
Water	0	0	1,863,078	1,728,487	1,863,078	1,728,487
Sewer	0	0	1,908,812	1,969,222	1,908,812	1,969,222
Electric	0	0	10,695,238	11,826,315	10,695,238	11,826,315
Storm Water	0	0	438,154	404,481	438,154	404,481
Total Expenses	7,767,299	7,811,618	14,905,282	15,928,505	22,672,581	23,740,123

CITY OF GALION
Crawford County
Management's Discussion and Analysis
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Table 2
Change in Net Position
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Increase in Net Position Before Transfers	\$836,153	\$1,060,419	\$2,570,467	\$1,248,781	\$3,406,620	\$2,309,200
Transfers	61,684	28,309	(61,684)	(28,309)	0	0
Increase in Net Position	897,837	1,088,728	2,508,783	1,220,472	3,406,620	2,309,200
Net Position Beginning of Year	21,916,854	20,828,126	23,206,722	21,986,250	45,123,576	42,814,376
Net Position End of Year	<u>\$22,814,691</u>	<u>\$21,916,854</u>	<u>\$25,715,505</u>	<u>\$23,206,722</u>	<u>\$48,530,196</u>	<u>\$45,123,576</u>

The above table reflects the revenues and expenses for operating the City for the past two years. For governmental activities, there was a 3 percent decrease in overall revenues; however, there were not significant changes in either program revenues or general revenues. In addition, expenditures were very similar to the prior year. Note that police and fire operations account for 49 percent of the City's total expenses and the street department operations account for another 23 percent of total expenses. These three departments, along with the basic costs of city operations (administration, receipt collections, paying bills, etc.), account for 88 percent of all of the City's governmental expenses.

As is to be expected, 98 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. There was a significant decrease in expenses from the prior year in the Electric Fund due to reporting the City's portion of the stranded costs associated with the AMPGS project in 2011 (see pages 61 and 62). As is the intent of enterprise operations, the costs of the City's four utilities were recovered through user charges in 2012.

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	
	2012	2011	2012	2011
Security of Persons and Property				
Police	\$1,833,718	\$1,825,098	\$1,787,148	\$1,739,419
Fire	1,939,221	1,856,812	1,277,642	1,326,963
Public Health	483,271	477,764	290,153	259,434
Leisure Time Activities	227,646	234,443	217,305	203,518
Community Environment	157,830	313,795	1,563	29,009
Transportation	1,753,591	1,801,431	857,665	983,673
General Government	1,274,710	1,168,930	845,764	712,555
Interest and Fiscal Charges	97,312	133,345	97,312	133,345
Total Expenses	<u>\$7,767,299</u>	<u>\$7,811,618</u>	<u>\$5,374,552</u>	<u>\$5,387,916</u>

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Management's Discussion and Analysis
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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 28 percent of the costs of providing fire services. These charges are for ambulance services as well as the amount charged to Polk Township for fire/ambulance services. Charges for services and operating grants provide for 40 percent of public health costs. Operating and capital grants provided for 99 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. Charges for services and various grants and contributions provided for 51 percent of the costs of the transportation program. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes. Program revenues also provided for 34 percent of the costs of the general government program. A large portion of this amount is the result of charges to the utility systems for general government services provided to them.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Police and Fire Levy special revenue fund. The General Fund experienced a 4 percent decrease in fund balance in 2012. This decrease was primarily due to resources transferred to other funds to subsidize operations in those funds (in large part, to eliminate the deficit fund balance that had existed in the Street Maintenance Fund).

Fund balance increased in the Police and Fire Levy Fund; however, these resources will be used to pay operating costs for the police and fire departments.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund net position, all four funds experienced an operating income in 2012.

In July 2005, the City implemented rate increases for water, sewer, and electric. The City increased rates for both water and sewer again annually in January of 2006 through 2012. An additional \$1.00 storm water fee was effective in January 2009 and was raised by an additional \$1 in January 2010. These increases eliminated deficits which had existed in those funds and stabilized operations of the funds. No further rate increases are being considered at this time.

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.

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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. There was an 11 percent increase from the final budget to actual revenues primarily due to improved municipal income tax collections and the receipt of estate taxes. For expenditures, there was an 8 percent increase from the original budget to the final budget due to an expectation of higher costs for pension related payments, workers' compensation, and health insurance. In addition, the City's original budget did not include the principal payment due on the City's Local Government Fund notes. However, note that actual expenditures were more comparable to the original budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2012, was \$15,133,750 and \$28,647,703, respectively (net of accumulated depreciation). Significant additions for governmental activities included street improvements, a tractor, police cruiser, and a fire truck. The primary additions for business-type activities consisted of continued improvements at the wastewater treatment plant and on the electric distribution system, waterline replacement, and a truck. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2012, the City had \$125,000 in revenue anticipation notes and \$885,000 in bond anticipation notes payable from governmental activities. There was \$520,010 in bond anticipation notes payable from business-type activities. The City also had a number of long-term obligations outstanding including \$9,781,000 in general obligation bonds, \$249,744 in Ohio Public Works Commission loans, and \$11,289,738 in Ohio Water Development Authority loans. Of this debt, \$20,528,874 will be paid from business-type activities.

In addition, the City's long-term obligations also include the liability for police and fire incurred when the State of Ohio established the statewide pension system, a loan for the acquisition of a fire truck, compensated absences, and a long-term obligation with AMP-Ohio. For further information regarding the City's debt, refer to Notes 17 and 18 to the basic financial statements.

CURRENT ISSUES

In November 2012, the voters of the City of Galion voted to eliminate the City's charter form of government which had been in place since January 1986 and return to a statutory form of government. This transition of government occurred on June 1, 2013. Elected officials are currently working through this transition process.

REQUEST FOR INFORMATION

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

City of Galion
Statement of Net Position
December 31, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$8,456,041	\$19,012,065	\$27,468,106	\$0
Cash and Cash Equivalents with Fiscal Agent	81,437	0	81,437	0
Investments in Segregated Accounts	0	0	0	9,241,664
Accounts Receivable	123,045	2,479,166	2,602,211	0
Due from Other Governments	447,697	0	447,697	0
Municipal Income Taxes Receivable	998,456	0	998,456	0
Other Local Taxes Receivable	13,647	0	13,647	0
Excise Taxes Receivable	0	39,432	39,432	0
Internal Balances	382,227	(382,227)	0	0
Prepaid Items	19,018	17,816	36,834	0
Materials and Supplies Inventory	104,600	26,011	130,611	0
Property Taxes Receivable	429,696	0	429,696	0
Notes Receivable	462,124	0	462,124	0
Special Assessments Receivable	0	367,496	367,496	0
Nondepreciable Capital Assets	4,271,125	5,814,866	10,085,991	0
Depreciable Capital Assets, Net	10,862,625	22,832,837	33,695,462	0
Investment in Joint Venture	0	1,150,911	1,150,911	0
Total Assets	26,651,738	51,358,373	78,010,111	9,241,664
<u>Liabilities</u>				
Accrued Wages Payable	111,721	53,854	165,575	0
Matured Compensated Absences Payable	15,813	0	15,813	0
Accounts Payable	38,226	723,852	762,078	0
Contracts Payable	65,866	426,714	492,580	0
Due to Other Governments	234,570	109,842	344,412	0
Retainage Payable	0	173,123	173,123	0
Accrued Interest Payable	25,534	87,774	113,308	0
Notes Payable	240,000	520,010	760,010	0
Claims Payable	3,492	0	3,492	0
Deposits Held and Due to Others	0	267,332	267,332	0
Long-Term Liabilities				
Due Within One Year	1,385,417	1,517,062	2,902,479	0
Due in More Than One Year	1,351,505	21,763,305	23,114,810	0
Total Liabilities	3,472,144	25,642,868	29,115,012	0
<u>Deferred Inflows or Resources</u>				
Property Taxes	364,903	0	364,903	0
<u>Net Position</u>				
Net Investment in Capital Assets	13,982,142	10,979,630	24,961,772	0
Restricted for				
Debt Service	24,216	0	24,216	0
Police and Fire	996,491	0	996,491	0
Revolving Loans	1,043,070	0	1,043,070	0
Other Purposes	1,746,627	0	1,746,627	0
Unrestricted	5,022,145	14,735,875	19,758,020	9,241,664
Total Net Position	\$22,814,691	\$25,715,505	\$48,530,196	\$9,241,664

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Activities
For the Year Ended December 31, 2012

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,833,718	\$24,792	\$21,778	\$0
Fire	1,939,221	544,572	117,007	0
Public Health	483,271	164,118	29,000	0
Leisure Time Activities	227,646	8,727	1,614	0
Community Environment	157,830	0	147,127	9,140
Transportation	1,753,591	308,606	409,662	177,658
General Government	1,274,710	411,099	10,647	7,200
Interest and Fiscal Charges	97,312	0	0	0
Total Governmental Activities	<u>7,767,299</u>	<u>1,461,914</u>	<u>736,835</u>	<u>193,998</u>
<u>Business-Type Activities</u>				
Water	1,863,078	1,892,237	0	0
Sewer	1,908,812	2,780,283	0	0
Electric	10,695,238	11,801,278	0	0
Storm Water	438,154	708,361	0	0
Total Business-Type Activities	<u>14,905,282</u>	<u>17,182,159</u>	<u>0</u>	<u>0</u>
Total Primary Government	<u>\$22,672,581</u>	<u>\$18,644,073</u>	<u>\$736,835</u>	<u>\$193,998</u>
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$543,779	\$0	\$0	\$0
Total	<u>\$23,216,360</u>	<u>\$18,644,073</u>	<u>\$736,835</u>	<u>\$193,998</u>

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$1,787,148)	\$0	(\$1,787,148)	\$0
(1,277,642)	0	(1,277,642)	0
(290,153)	0	(290,153)	0
(217,305)	0	(217,305)	0
(1,563)	0	(1,563)	0
(857,665)	0	(857,665)	0
(845,764)	0	(845,764)	0
(97,312)	0	(97,312)	0
(5,374,552)	0	(5,374,552)	0
0	29,159	29,159	0
0	871,471	871,471	0
0	1,106,040	1,106,040	0
0	270,207	270,207	0
0	2,276,877	2,276,877	0
(5,374,552)	2,276,877	(3,097,675)	0
0	0	0	(543,779)
(5,374,552)	2,276,877	(3,097,675)	(543,779)
358,261	0	358,261	0
65,234	0	65,234	0
2,000,730	0	2,000,730	0
1,777,718	0	1,777,718	0
223,014	0	223,014	0
469,946	0	469,946	0
542,428	0	542,428	0
128,956	0	128,956	0
24,369	4,303	28,672	1,145,612
620,049	289,287	909,336	0
6,210,705	293,590	6,504,295	1,145,612
61,684	(61,684)	0	0
6,272,389	231,906	6,504,295	1,145,612
897,837	2,508,783	3,406,620	601,833
21,916,854	23,206,722	45,123,576	8,639,831
\$22,814,691	\$25,715,505	\$48,530,196	\$9,241,664

City of Galion
Balance Sheet
Governmental Funds
December 31, 2012

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,105,234	\$660,472	\$2,598,479	\$8,364,185
Accounts Receivable	123,045	0	0	123,045
Due from Other Governments	205,522	0	242,175	447,697
Municipal Income Taxes Receivable	499,227	447,342	51,887	998,456
Other Local Taxes Receivable	179	0	13,468	13,647
Interfund Receivable	520,993	0	0	520,993
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	4,181	0	0	4,181
Cash and Cash Equivalents with Fiscal Agent	81,437	0	0	81,437
Prepaid Items	14,375	0	4,643	19,018
Materials and Supplies Inventory	0	0	104,600	104,600
Property Taxes Receivable	363,504	0	66,192	429,696
Notes Receivable	0	0	462,124	462,124
Total Assets	\$6,917,697	\$1,107,814	\$3,543,568	\$11,569,079
<u>Liabilities</u>				
Accrued Wages Payable	\$42,309	\$58,187	\$11,225	\$111,721
Matured Compensated Absences Payable	15,813	0	0	15,813
Accounts Payable	28,235	0	9,858	38,093
Contracts Payable	215	0	65,651	65,866
Due to Other Governments	92,309	53,136	89,125	234,570
Interfund Payable	0	0	107,708	107,708
Accrued Interest Payable	3,672	0	1,997	5,669
Notes Payable	125,000	0	115,000	240,000
Total Liabilities	307,553	111,323	400,564	819,440
<u>Deferred Inflows of Resources</u>				
Property Taxes	308,691	0	56,212	364,903
Unavailable Revenue	610,534	272,513	193,084	1,076,131
Total Deferred Inflows of Resources	919,225	272,513	249,296	1,441,034
<u>Fund Balance</u>				
Nonspendable	18,556	0	109,243	127,799
Restricted	81,437	723,978	2,955,655	3,761,070
Assigned	75,449	0	0	75,449
Unassigned (Deficit)	5,515,477	0	(171,190)	5,344,287
Total Fund Balance	5,690,919	723,978	2,893,708	9,308,605
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$6,917,697	\$1,107,814	\$3,543,568	\$11,569,079

See Accompanying Notes to the Basic Financial Statements

City of Galion
 Reconciliation of Total Governmental Fund Balance
 to Net Position of Governmental Activities
 December 31, 2012

Total Governmental Fund Balance		\$9,308,605
<p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,133,750
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds:		
Accounts Receivable	100,324	
Due from Other Governments	305,432	
Municipal Income Taxes Receivable	605,582	
Delinquent Property Taxes Receivable	64,793	
		1,076,131
An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.		(31,058)
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds; it is reported when due.		(19,865)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Notes Payable	(770,000)	
General Obligation Bonds Payable	(700,000)	
OPWC Loans Payable	(91,608)	
Police Pension Liability	(24,165)	
Fire Pension Liability	(91,595)	
Capital Loan Payable	(360,000)	
Compensated Absences Payable	(699,554)	
		(2,736,922)
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		84,050
Net Position of Governmental Activities		\$22,814,691

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2012

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$336,383	\$0	\$61,250	\$397,633
Municipal Income Taxes	2,294,061	2,041,715	252,346	4,588,122
Other Local Taxes	469,946	0	183,587	653,533
Charges for Services	1,064,501	0	136,696	1,201,197
Fees, Licenses, and Permits	124,206	0	0	124,206
Fines and Forfeitures	17,313	0	6,168	23,481
Intergovernmental	584,971	0	900,820	1,485,791
Interest	24,345	0	17,836	42,181
Other	84,888	4,752	532,023	621,663
Total Revenues	5,000,614	2,046,467	2,090,726	9,137,807
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	793,163	824,166	230,387	1,847,716
Fire	1,017,807	780,308	395,321	2,193,436
Public Health	485,327	0	0	485,327
Leisure Time Activities	0	0	185,485	185,485
Community Environment	0	0	157,830	157,830
Transportation	0	0	1,041,997	1,041,997
General Government	1,239,947	0	1,948	1,241,895
Debt Service:				
Current Refunding	0	0	85,000	85,000
Principal Retirement	0	0	366,121	366,121
Interest and Fiscal Charges	13,739	0	83,503	97,242
Total Expenditures	3,549,983	1,604,474	2,547,592	7,702,049
Excess of Revenues Over (Under) Expenditures	1,450,631	441,993	(456,866)	1,435,758
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	0	0	770,000	770,000
Current Refunding	0	0	(680,000)	(680,000)
Capital Loan Issued	360,000	0	0	360,000
Transfers In	0	0	2,077,537	2,077,537
Transfers Out	(2,041,633)	0	(71,806)	(2,113,439)
Total Other Financing Sources (Uses)	(1,681,633)	0	2,095,731	414,098
Changes in Fund Balance	(231,002)	441,993	1,638,865	1,849,856
Fund Balance Beginning of Year	5,921,921	281,985	1,254,843	7,458,749
Fund Balance End of Year	<u>\$5,690,919</u>	<u>\$723,978</u>	<u>\$2,893,708</u>	<u>\$9,308,605</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion
 Reconciliation of Statement of Revenues, Expenditures,
 and Changes in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2012

Changes in Fund Balance - Total Governmental Funds \$1,849,856

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

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

Capital Outlay - Nondepreciable Capital Assets	169,090	
Capital Outlay - Depreciable Capital Assets	737,897	
Assets Transferred from Business-Type Activities	146,381	
Depreciation	<u>(1,413,724)</u>	(360,356)

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

Delinquent Property Taxes	25,862	
Municipal Income Taxes	(586,660)	
Charges for Services	26,824	
Fees, Licenses, and Permits	31,575	
Intergovernmental	<u>(31,956)</u>	(534,355)

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

Notes Payable	765,000	
General Obligation Bonds Payable	350,000	
OPWC Loans Payable	13,087	
Police Pension Liability	633	
Fire Pension Liability	<u>2,401</u>	1,131,121

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. (70)

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

Bond Anticipation Notes Issued	(770,000)	
Capital Loan Issued	<u>(360,000)</u>	(1,130,000)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (67,782)

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. 9,423

Change in Net Position of Governmental Activities \$897,837

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$351,693	\$351,693	\$336,383	(\$15,310)
Municipal Income Taxes	2,060,400	2,060,400	2,227,394	166,994
Other Local Taxes	460,000	460,000	469,464	9,464
Charges for Services	1,001,900	1,001,900	1,049,041	47,141
Fees, Licenses, and Permits	144,965	144,965	155,805	10,840
Fines and Forfeitures	22,695	22,695	16,387	(6,308)
Intergovernmental	342,700	342,700	609,861	267,161
Interest	24,917	24,917	24,345	(572)
Other	0	0	11,209	11,209
Total Revenues	4,409,270	4,409,270	4,899,889	490,619
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	903,101	937,743	812,613	125,130
Fire	1,040,966	1,104,188	1,033,938	70,250
Public Health	535,890	535,890	461,159	74,731
General Government	1,464,363	1,539,911	1,274,744	265,167
Debt Service:				
Principal Retirement	0	117,000	117,000	0
Interest and Fiscal Charges	7,200	21,418	17,176	4,242
Total Expenditures	3,951,520	4,256,150	3,716,630	539,520
Excess of Revenues Over Expenditures	457,750	153,120	1,183,259	1,030,139
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	0	0	73,641	73,641
Capital Loan Issued	360,000	360,000	360,000	0
Transfers In	867	867	0	(867)
Transfers Out	(1,337,921)	(2,407,515)	(2,041,633)	365,882
Total Other Financing Sources (Uses)	(977,054)	(2,046,648)	(1,607,992)	438,656
Changes in Fund Balance	(519,304)	(1,893,528)	(424,733)	1,468,795
Fund Balance Beginning of Year	5,607,479	5,607,479	5,607,479	0
Prior Year Encumbrances Appropriated	21,665	21,665	21,665	0
Fund Balance End of Year	\$5,109,840	\$3,735,616	\$5,204,411	\$1,468,795

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Revenues, Expenditures,
and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Police and Fire Levy Special Revenue Fund
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$1,833,800	\$1,833,800	\$1,982,381	\$148,581
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	946,030	946,030	799,535	146,495
Fire	846,370	846,370	775,629	70,741
Total Expenditures	1,792,400	1,792,400	1,575,164	217,236
Excess of Revenues Over Expenditures	41,400	41,400	407,217	365,817
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	4,752	4,752
Changes in Fund Balance	41,400	41,400	411,969	370,569
Fund Balance Beginning of Year	248,503	248,503	248,503	0
Fund Balance End of Year	<u>\$289,903</u>	<u>\$289,903</u>	<u>\$660,472</u>	<u>\$370,569</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Fund Net Position
Proprietary Funds
December 31, 2012

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Assets</u>						
<u>Current Assets</u>						
Equity in Pooled Cash and Cash Equivalents	\$2,806,170	\$3,608,216	\$10,688,261	\$1,642,086	\$18,744,733	\$87,675
Accounts Receivable	340,756	244,324	1,835,467	58,619	2,479,166	0
Excise Taxes Receivable	0	0	39,432	0	39,432	0
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	76,169	71,740	119,423	0	267,332	0
Prepaid Items	4,251	4,316	7,745	1,504	17,816	0
Materials and Supplies Inventory	21,764	4,247	0	0	26,011	0
Special Assessments Receivable	10,742	17,527	0	0	28,269	0
Total Current Assets	3,259,852	3,950,370	12,690,328	1,702,209	21,602,759	87,675
<u>Non-Current Assets</u>						
Special Assessments Receivable	128,906	210,321	0	0	339,227	0
Nondepreciable Capital Assets	864,040	1,852,064	3,035,222	63,540	5,814,866	0
Depreciable Capital Assets, Net	6,978,382	8,170,008	5,631,070	2,053,377	22,832,837	0
Investment in Joint Venture	0	0	1,150,911	0	1,150,911	0
Total Non-Current Assets	7,971,328	10,232,393	9,817,203	2,116,917	30,137,841	0
Total Assets	11,231,180	14,182,763	22,507,531	3,819,126	51,740,600	87,675
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	15,319	15,242	21,299	1,994	53,854	0
Accounts Payable	28,483	21,880	669,021	4,468	723,852	133
Contracts Payable	3,205	409,609	6,846	7,054	426,714	0
Due to Other Governments	27,906	28,127	47,172	6,637	109,842	0
Retainage Payable	0	35,986	137,137	0	173,123	0
Compensated Absences Payable	33,687	36,969	52,148	1,115	123,919	0
Interfund Payable	104,731	93,304	189,802	25,448	413,285	0
Accrued Interest Payable	2,084	5,028	78,745	1,917	87,774	0
Notes Payable	120,000	289,600	0	110,410	520,010	0
Claims Payable	0	0	0	0	0	3,492
General Obligation Bonds Payable	0	0	767,000	0	767,000	0
OPWC Loans Payable	10,555	26,907	0	0	37,462	0
OWDA Loans Payable	244,471	195,028	0	0	439,499	0
AMP Ohio Payable	0	0	149,182	0	149,182	0
Total Current Liabilities	590,441	1,157,680	2,118,352	159,043	4,025,516	3,625
<u>Non-Current Liabilities</u>						
Deposits Held and Due to Others	76,169	71,740	119,423	0	267,332	0
General Obligation Bonds Payable	0	0	8,314,000	0	8,314,000	0
OPWC Loans Payable	107,220	13,454	0	0	120,674	0
OWDA Loans Payable	6,005,847	4,844,392	0	0	10,850,239	0
AMP Ohio Payable	0	0	2,078,472	0	2,078,472	0
Compensated Absences Payable	128,654	119,041	145,306	6,919	399,920	0
Total Non-Current Liabilities	6,317,890	5,048,627	10,657,201	6,919	22,030,637	0
Total Liabilities	6,908,331	6,206,307	12,775,553	165,962	26,056,153	3,625
<u>Net Position</u>						
Net Investment in Capital Assets	1,354,329	4,942,291	2,676,503	2,006,507	10,979,630	0
Unrestricted	2,968,520	3,034,165	7,055,475	1,646,657	14,704,817	84,050
Total Net Position	\$4,322,849	\$7,976,456	\$9,731,978	\$3,653,164	25,684,447	\$84,050

Net position reported for business-type activities on the statement of net position is different because it includes a proportionate share of the balance of the internal service fund.

31,058

Net position of business-type activities

\$25,715,505

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Revenues, Expenses,
and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2012

	Business-Type Activities				Total Enterprise Funds	Governmental
	Water	Sewer	Electric	Storm Water		Activity Internal Service Fund
<u>Operating Revenues</u>						
Charges for Services	\$1,892,237	\$2,780,283	\$11,801,278	\$708,361	\$17,182,159	\$82,852
Other	81,106	67,391	140,097	693	289,287	0
Total Operating Revenues	<u>1,973,343</u>	<u>2,847,674</u>	<u>11,941,375</u>	<u>709,054</u>	<u>17,471,446</u>	<u>82,852</u>
<u>Operating Expenses</u>						
Salaries	437,508	409,632	674,648	101,897	1,623,685	0
Benefits	266,506	247,033	417,968	87,811	1,019,318	0
Contractual Services	101,031	147,117	8,236,359	30,763	8,515,270	0
Materials and Supplies	365,491	217,811	168,138	108,111	859,551	0
Bad Debt	40,236	54,102	275,029	17,183	386,550	0
Claims	0	0	0	0	0	67,892
Depreciation	347,080	516,948	202,960	63,855	1,130,843	0
Other	104,731	97,864	153,302	25,448	381,345	0
Total Operating Expenses	<u>1,662,583</u>	<u>1,690,507</u>	<u>10,128,404</u>	<u>435,068</u>	<u>13,916,562</u>	<u>67,892</u>
Operating Income	<u>310,760</u>	<u>1,157,167</u>	<u>1,812,971</u>	<u>273,986</u>	<u>3,554,884</u>	<u>14,960</u>
<u>Non-Operating Revenues (Expenses)</u>						
Interest Revenue	0	0	4,303	0	4,303	0
Interest Expense	(202,156)	(199,912)	(436,930)	(3,197)	(842,195)	0
Loss on Disposal of Capital Assets	0	(19,999)	0	(97,586)	(117,585)	0
Loss from Joint Venture	0	0	(132,063)	0	(132,063)	0
Total Non-Operating Revenues (Expenses)	<u>(202,156)</u>	<u>(219,911)</u>	<u>(564,690)</u>	<u>(100,783)</u>	<u>(1,087,540)</u>	<u>0</u>
Income before Transfers	108,604	937,256	1,248,281	173,203	2,467,344	14,960
Transfers In	27,286	44,520	0	0	71,806	0
Transfers Out	(13,644)	(22,260)	0	0	(35,904)	0
Changes in Net Position	122,246	959,516	1,248,281	173,203	2,503,246	14,960
Net Position Beginning of Year	4,200,603	7,016,940	8,483,697	3,479,961		69,090
Net Position End of Year	<u>\$4,322,849</u>	<u>\$7,976,456</u>	<u>\$9,731,978</u>	<u>\$3,653,164</u>		<u>\$84,050</u>
The change in net position reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.					<u>5,537</u>	
Change in net position of business-type activities					<u>\$2,508,783</u>	

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012

	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	\$1,894,306	\$2,765,244	\$11,777,864	\$705,041	\$17,142,455	\$0
Cash Received from						
Transactions with Other Funds	0	0	0	0	0	82,852
Cash Received from Deposits	28,491	27,508	53,801	0	109,800	0
Cash Received from Other Revenues	49,598	67,413	140,232	693	257,936	0
Cash Payments for Salaries	(436,995)	(395,673)	(758,479)	(102,101)	(1,693,248)	0
Cash Payments for Benefits	(260,733)	(243,451)	(410,449)	(86,493)	(1,001,126)	0
Cash Payments for Contractual Services	(95,262)	(138,222)	(8,409,561)	(27,017)	(8,670,062)	(2,867)
Cash Payments for Materials and Supplies	(436,106)	(240,261)	(471,861)	(114,880)	(1,263,108)	0
Cash Payments for Claims	0	0	0	0	0	(67,368)
Cash Payments for						
Transactions with Other Funds	(1,661)	(1,606)	(2,159)	(111)	(5,537)	0
Cash Payments for Deposits Refunded	(26,367)	(25,918)	(52,119)	0	(104,404)	0
Cash Payments for Other Expenses	(96,375)	(102,117)	(148,584)	(23,295)	(370,371)	0
Net Cash Provided by Operating Activities	<u>618,896</u>	<u>1,712,917</u>	<u>1,718,685</u>	<u>351,837</u>	<u>4,402,335</u>	<u>12,617</u>
<u>Cash Flows from Noncapital Financing Activities</u>						
Transfers Out	(3,041)	(4,961)	0	0	(8,002)	0
<u>Cash Flows from Capital and Related Financing Activities</u>						
Principal Paid on Bond Anticipation Notes	(180,000)	(193,679)	0	(218,826)	(592,505)	0
Principal Paid on General Obligation Bonds	0	0	(741,000)	0	(741,000)	0
Principal Paid on OPWC Loans	(10,555)	(26,907)	0	0	(37,462)	0
Principal Paid on OWDA Loans	(220,929)	(200,061)	0	0	(420,990)	0
Interest Paid on Bond Anticipation Notes	(4,259)	(4,616)	0	(5,326)	(14,201)	0
Interest Paid on General Obligation Bonds	0	0	(430,260)	0	(430,260)	0
Interest Paid on OWDA Loans	(188,274)	(176,191)	0	0	(364,465)	0
Interest Paid on AMP Ohio Loan	0	0	(12,488)	0	(12,488)	0
Bond Anticipation Notes Issued	120,000	289,600	0	110,410	520,010	0
OWDA Loans Issued	0	36,013	0	0	36,013	0
Acquisition of Capital Assets	(199,549)	(88,482)	(1,131,925)	(39,162)	(1,459,118)	0
Net Cash Used for Capital and Related Financing Activities	<u>(683,566)</u>	<u>(364,323)</u>	<u>(2,315,673)</u>	<u>(152,904)</u>	<u>(3,516,466)</u>	<u>0</u>
<u>Cash Flows from Investing Activities</u>						
Interest	0	0	4,303	0	4,303	0
Net Increase (Decrease) in Cash and Cash Equivalents	(67,711)	1,343,633	(592,685)	198,933	882,170	12,617
Cash and Cash Equivalents Beginning of Year	<u>2,950,050</u>	<u>2,336,323</u>	<u>11,400,369</u>	<u>1,443,153</u>	<u>18,129,895</u>	<u>75,058</u>
Cash and Cash Equivalents End of Year	<u><u>\$2,882,339</u></u>	<u><u>\$3,679,956</u></u>	<u><u>\$10,807,684</u></u>	<u><u>\$1,642,086</u></u>	<u><u>\$19,012,065</u></u>	<u><u>\$87,675</u></u>

(continued)

City of Galion
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2012
(continued)

	Business-Type Activities				Total Enterprise Funds	Governmental
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>						
Operating Income	\$310,760	\$1,157,167	\$1,812,971	\$273,986	\$3,554,884	\$14,960
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>						
Allowance for Uncollectibles	40,236	54,102	275,029	17,183	386,550	0
Depreciation	347,080	516,948	202,960	63,855	1,130,843	0
Changes in Assets and Liabilities:						
Increase in Accounts Receivable	(29,579)	(15,244)	(23,414)	(3,320)	(71,557)	0
Decrease in Due from Other Governments	0	0	135	0	135	0
Increase in Excise Taxes Receivable	0	0	(385)	0	(385)	0
Decrease in Prepaid Items	5,102	5,089	5,009	2,586	17,786	0
Increase in Materials and Supplies Inventory	(4,288)	(2,109)	0	0	(6,397)	0
Decrease in Special Assessments Receivable	140	227	0	0	367	0
Increase (Decrease) in Accrued Wages Payable	838	695	(1,734)	254	53	0
Increase (Decrease) in Accounts Payable	12,132	7,078	(39,507)	3,167	(17,130)	(2,867)
Increase (Decrease) in Contracts Payable	(72,927)	5,161	(209,117)	(8,991)	(285,874)	0
Increase in Due to Other Governments	4,542	2,812	5,584	1,422	14,360	0
Decrease in Retainage Payable	(5,295)	(29,203)	(96,398)	0	(130,896)	0
Increase (Decrease) in Compensated Absences Payable	(325)	13,264	(82,097)	(458)	(69,616)	0
Increase (Decrease) in Interfund Payable	8,356	(4,660)	5,337	2,153	11,186	0
Increase in Claims Payable	0	0	0	0	0	524
Increase in Deposits Held and Due to Others	2,124	1,590	1,682	0	5,396	0
Decrease in AMP Ohio Payable	0	0	(137,370)	0	(137,370)	0
Net Cash Provided by Operating Activities	<u>\$618,896</u>	<u>\$1,712,917</u>	<u>\$1,718,685</u>	<u>\$351,837</u>	<u>\$4,402,335</u>	<u>\$12,617</u>

Non-Cash Capital Transactions

In 2012, the Storm Water enterprise fund transferred capital assets, in the amount of \$146,381 with accumulated depreciation of \$48,795, to governmental funds.

See Accompanying Notes to the Basic Financial Statements

City of Galion
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2012

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$23,325</u></u>
<u>Liabilities</u>	
Undistributed Assets	<u><u>\$23,325</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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

A. The City

The City of Galion (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.

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 21 to the basic financial statements.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 2012, the City received \$421,204 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. 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, 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, and the Galion Public Library. These organizations are presented in Notes 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. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

Police and Fire Levy Fund - The Police and Fire Levy special revenue fund accounts for voted .39 and .5 percent income tax levies restricted to provide resources for operating the police and fire departments.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The City reports two types of proprietary funds, enterprise and internal service:

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

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2012. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for transient fees collected for use by a convention and visitors bureau and for health care contributions deducted from employee salaries.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. The City did not report any deferred outflows of resources for 2012.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources consists of property taxes and unavailable revenue. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

Expenses/Expenditures

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

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the 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 final amended certificate of estimated resources requested by the City prior to year end.

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, are included on the financial statements as "Cash and Cash Equivalents with Fiscal Agent".

During 2012, the City invested in repurchase agreements and mutual funds. The repurchase agreements are reported at cost. 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 2012 was \$24,345 which includes \$17,812 assigned from other City funds.

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Restricted Assets

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

Unclaimed monies that have a legal restriction on their use are reported as restricted.

Restricted assets also represent certain resources which are segregated from other resources of the City to comply with various covenants established by debt 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 position because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Inventory

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

J. Capital Assets

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

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.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	13-100 years	13-100 years
Improvements Other Than Buildings	20-25 years	30-100 years
Streets	10-40 years	N/A
Bridges	50 years	N/A
Water, Sewer, Electric, and Storm Water Lines	N/A	50 years
Equipment	5-20 years	10-50 years
Vehicles	5-30 years	10-15 years

K. Interfund 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 position except for any net residual amounts due between governmental and business-type activities. These amounts are reflected 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.

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

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

N. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes activities for construction, repair, and maintenance of streets and highways and various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

O. Fund Balance

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

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

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

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by City Council. The City Council has authorized the City Manager to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

P. Operating Revenues and Expenses

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

Q. Capital Contributions

Capital contributions arise from contributions from other funds.

R. Interfund Transactions

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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

S. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPALS

For 2012, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53", Statement No. 65, "Items Previously Reported as Assets and Liabilities", and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change to the City's financial statements.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES (continued)

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and, thereby, enhance the usefulness of the financial reports. The implementation of this statement did not result in any change to the City's financial statements.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2012, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
Airport	\$68
Police Pension	20,909
Fire Pension	28,750
Nonmajor Debt Service Fund	
Cheshire Special Assessment	107,708

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

B. Compliance

For the year ended December 31, 2012, the Cheshire Special Assessment debt service fund had final appropriations in excess of estimated resources plus available balances, in the amount of \$71,806. The City will review appropriations to ensure they are within available resources.

The CHIP special revenue fund had expenditures plus encumbrances in excess of appropriations for miscellaneous CHIP, contractual services, for the year ended December 31, 2012, in the amount of \$17,422. The City will monitor budgetary transactions to ensure expenditures are within amounts appropriated.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

	General	Police and Fire Levy
GAAP Basis	(\$231,002)	\$441,993
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2011, Received in Cash 2012	658,452	115,495
Accrued 2012, Not Yet Received in Cash	(685,537)	(174,829)
Expenditure Accruals:		
Accrued 2011, Paid in Cash 2012	(148,060)	(82,013)
Accrued 2012, Not Yet Paid in Cash	182,553	111,323
Cash Accruals:		
Unrecorded Activity 2011	1,564	0
Unrecorded Activity 2012	(1,523)	0
Prepaid Items	8,446	0
Note Principal Retirement	(117,000)	0
Encumbrances Outstanding at Year End (Budget Basis)	(92,626)	0
Budget Basis	(\$424,733)	\$411,969

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
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);
7. The State Treasurer's investment pool (STAR Ohio); and

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

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, 2012, the City had the following investments:

	Fair Value	Maturity
Repurchase Agreement	\$25,163,212	1/2/13
Mutual Fund	82,312	23 days
	\$25,245,524	

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

The securities underlying the repurchase agreement (Federal National Mortgage Association Notes) and mutual funds carry a rating of Aaa by Moody's. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that repurchase agreements be limited to investments in United States treasury securities and federal government agency securities and that mutual funds in eligible securities be rated in the highest category at the time of purchase by at least one nationally recognized standard of rating service.

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreement is exposed to custodial credit risk as it is uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the City's name. The City has no investment policy dealing with custodial credit risk beyond the requirements of State statute.

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

	Fair Value	Percentage of Portfolio
Repurchase Agreement	\$25,163,212	99.67%

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 7 - RECEIVABLES

Receivables at December 31, 2012, 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 municipal income taxes, property taxes, notes, special assessments, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$414,117, will not be received within one year. Special assessments, in the amount of \$339,227, will not be received within one year. There were delinquent special assessments, in the amount of \$368, at December 31, 2012.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$521,612	\$450,922	\$3,027,368	\$129,245	\$4,129,147
Less Allowance for Uncollectibles	(180,856)	(206,598)	(1,191,901)	(70,626)	(1,649,981)
Net Accounts Receivable	<u>\$340,756</u>	<u>\$244,324</u>	<u>\$1,835,467</u>	<u>\$58,619</u>	<u>\$2,479,166</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 4 percent and are paid over a period of 15 years.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$27,550
Local Government	105,545
Cigarette Taxes	368
Estate Taxes	46,068
Fines and Forfeitures	1,995
Victims of Crime	12,794
Bulletproof Vest	362
Ohio Department of Health	10,840
Total General Fund	<u>205,522</u>

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds	
Police Drug	
Fines	\$25
OVI Enforcement	
Fines	6
Street Maintenance	
Gasoline Tax	160,044
Motor Vehicle License Tax	33,642
Polk Township	3,556
Total Street Maintenance	197,242
State Highway	
Gasoline Tax	12,977
Motor Vehicle License Tax	2,728
Total State Highway	15,705
Police Pension	
Homestead and Rollback	2,507
Personal Property Phase-Out	153
Total Police Pension	2,660
Fire Pension	
Homestead and Rollback	2,507
Personal Property Phase-Out	153
Total Fire Pension	2,660
CHIP	
CHIP	23,560
CDBG	
CDBG	317
Total Nonmajor Funds	242,175
Total Governmental Activities	\$447,697

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.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 8 - MUNICIPAL INCOME TAXES (continued)

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

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2012 represent the collection of 2011 taxes. Real property taxes received in 2012 were levied after October 1, 2011, on the assessed values as of January 1, 2011, 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 2012 represent the collection of 2011 taxes. Public utility real and tangible personal property taxes received in 2012 became a lien on December 31, 2010, were levied after October 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2012, was \$3.90 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$560,070
Residential	91,842,910
Commercial	24,042,250
Industrial	8,026,060
Public Utility Property	
Real	53,480
Personal	889,580
Total Assessed Value	\$125,414,350

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,485,816	\$0	\$0	\$3,485,816
Construction in Progress	616,219	169,090	0	785,309
Total Nondepreciable Capital Assets	4,102,035	169,090	0	4,271,125
Depreciable Capital Assets				
Buildings	1,050,562	0	0	1,050,562
Improvements Other Than Buildings	1,234,815	0	0	1,234,815
Streets	22,001,181	290,486	0	22,291,667
Bridges	1,236,330	0	0	1,236,330
Equipment	888,546	202,828	0	1,091,374
Vehicles	1,819,467	390,964	0	2,210,431
Total Depreciable Capital Assets	28,230,901	884,278	0	29,115,179
Less Accumulated Depreciation for				
Buildings	(444,712)	(29,293)	0	(474,005)
Improvements Other Than Buildings	(181,647)	(58,639)	0	(240,286)
Streets	(14,253,849)	(1,071,450)	0	(15,325,299)
Bridges	(573,724)	(24,727)	0	(598,451)
Equipment	(420,204)	(119,521)	0	(539,725)
Vehicles	(964,694)	(110,094)	0	(1,074,788)
Total Accumulated Depreciation	(16,838,830)	(1,413,724)	0	(18,252,554)
Total Depreciable Capital Assets, Net	11,392,071	(529,446)	0	10,862,625
Governmental Activities Capital Assets, Net	\$15,494,106	(\$360,356)	0	\$15,133,750

During 2012, governmental funds accepted contributions of capital assets from business-type activities, in the amount of \$146,381 with accumulated depreciation of \$48,795.

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$2,169,744	\$0	\$0	\$2,169,744
Construction in Progress	2,071,292	1,875,465	(301,635)	3,645,122
Total Nondepreciable Capital Assets	4,241,036	1,875,465	(301,635)	5,814,866

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Business-Type Activities (continued):				
Depreciable Capital Assets				
Buildings	\$18,334,378	\$0	\$0	\$18,334,378
Improvements Other Than Buildings	7,316,411	0	0	7,316,411
Water, Sewer, Electric, and Storm Water Lines	10,134,292	164,054	(1,771)	10,296,575
Equipment	3,304,252	150,401	(171,380)	3,283,273
Vehicles	1,291,193	154,235	0	1,445,428
Total Depreciable Capital Assets	<u>40,380,526</u>	<u>468,690</u>	<u>(173,151)</u>	<u>40,676,065</u>
Less Accumulated Depreciation for				
Buildings	(8,630,864)	(635,724)	0	(9,266,588)
Improvements Other Than Buildings	(2,091,573)	(131,295)	0	(2,222,868)
Water, Sewer, Electric, and Storm Water Lines	(3,462,276)	(194,036)	1,771	(3,654,541)
Equipment	(1,656,936)	(116,570)	53,795	(1,719,711)
Vehicles	(926,302)	(53,218)	0	(979,520)
Total Accumulated Depreciation	<u>(16,767,951)</u>	<u>(1,130,843)</u>	<u>55,566</u>	<u>(17,843,228)</u>
Total Depreciable Capital Assets, Net	<u>23,612,575</u>	<u>(662,153)</u>	<u>(117,585)</u>	<u>22,832,837</u>
Business-Type Activities Capital Assets, Net	<u>\$27,853,611</u>	<u>\$1,213,312</u>	<u>(\$419,220)</u>	<u>\$28,647,703</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$41,662
Security of Persons and Property - Fire	50,559
Public Health	5,375
Leisure Time Activities	47,091
Transportation	1,231,945
General Government	37,092
Total Depreciation Expense - Governmental Activities	<u>\$1,413,724</u>

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2012, the General Fund had an interfund receivable, in the amount of \$520,993; \$107,708 from other governmental funds to alleviate deficit cash balances, and \$104,731 from the Water enterprise fund, \$93,304 from the Sewer enterprise fund, \$189,802 from the Electric enterprise fund, and \$25,448 from the Storm Water enterprise fund for services provided to those funds. Amounts are expected to be received within one year

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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 2012, the City contracted with U. S. Specialty Insurance Company for the following insurance coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Property (building and contents)	\$14,805,178	\$1,000
Flood/Earthquake	500,000	50,000
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	0
Commercial Umbrella	5,000,000	10,000
Crime Coverage	250,000	0

There has been no significant reduction in insurance coverage from 2011, and no insurance settlement has exceeded insurance coverage during the last three years.

The City offers dental and vision insurance to all employees through a self-insured program. All funds of the City participate in the program and make payments to the Self Insurance internal service fund based on actuarial estimates of the amounts needed to pay prior and current year claims. Settled claims have not exceeded this commercial coverage in the last three years.

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

The changes in the claims liability for 2012 and 2011 were as follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2012	\$2,968	\$67,892	\$67,368	\$3,492
2011	4,458	72,745	74,235	2,968

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2012:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/12</u>	<u>Outstanding Balance</u>
Burgess & Niple, Inc.	\$234,600	\$0	\$234,600
E P Ferris & Associates, Inc.	159,810	10,486	149,324
Gledhill Road Machinery, Inc.	78,089	0	78,089
J W Didado Electric, Inc.	1,559,538	1,202,403	357,135
Kirk Brothers, Inc.	649,000	35,891	613,109
Pearce Engineering	150,000	70,063	79,937
Shearer Farm, Inc.	44,709	0	44,709

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which 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 stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

The City's 2012 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010, \$450,652, \$464,423, and \$421,202, respectively. For 2012, 85 percent has been contributed with the balance reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. There were no contributions made to the member-directed plan for 2012.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2012, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contribution to OPF for police and firefighters pension was \$160,580 and \$224,706, for the year ended December 31, 2012, \$164,610 and \$239,620 for the year ended December 31, 2011, and \$160,808 and \$216,660 for the year ended December 31, 2010. For 2012, 82 percent has been contributed for police and 83 percent for firefighters with the balance reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent in 2012. Effective January 1, 2013, the portion of the employer contribution allocated to health care was lowered to 1 percent for both plans as recommended by the OPERS actuary.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2012, 2011, and 2010 was \$107,630, \$110,781, and \$134,349, respectively. For 2012, 85 percent has been contributed with the balance reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 9, 2012, with a transition plan commencing on January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contribution toward the health care fund after the end of the transition period.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

B. Ohio Police and Fire Pension Fund

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters was \$51,008 and \$58,903 for the year ended December 31, 2012, \$52,288 and \$62,813 for the year ended December 31, 2011, and \$51,080 and \$56,794 for the year ended December 31, 2010. For 2012, 83 percent has been contributed for police and 84 percent for firefighters with the balance reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

NOTE 16 - OTHER EMPLOYEE BENEFITS

A. Health Care Benefits

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

B. Compensated Absences

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

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

Sick leave is earned at various rates as defined by City policy and union contracts. 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, 33 percent, and 66 percent of the value of their accumulated unused sick leave, dependent on the amount of accumulated hours.

NOTE 17 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2012, were as follows:

	<u>Interest Rate</u>	<u>Balance December 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2012</u>
<u>Governmental Activities</u>					
<u>Revenue Anticipation Notes</u>					
General Fund					
2005 Local Government Fund	5.875%	\$242,000	\$0	\$117,000	\$125,000

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 17 - NOTES PAYABLE (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
<u>Governmental Activities</u> (continued)					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
General Fund					
2011 Street Improvement	1.55%	\$330,000	\$0	\$330,000	\$0
2011 Street Improvement (Series A)	2.10	85,000	0	85,000	0
2012 Dump Truck	1.95	0	30,000	0	30,000
2012 Street Improvement	1.95	0	85,000	0	85,000
Total Governmental Activities		<u>\$657,000</u>	<u>\$115,000</u>	<u>\$532,000</u>	<u>\$240,000</u>
	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Funds					
2011 Water Line Improvement (Series A)	2.10%	\$180,000	\$0	\$180,000	\$0
2012 Water Line Improvement	1.95	0	120,000	0	120,000
2011 Wastewater System (Series A)	2.10	193,679	0	193,679	0
2012 Wastewater System Improvement	1.95	0	289,600	0	289,600
2011 Storm System Improvement (Series A)	2.10	218,826	0	218,826	0
2012 Storm System Improvement	1.95	0	110,410	0	110,410
Total Business-Type Activities		<u>\$592,505</u>	<u>\$520,010</u>	<u>\$592,505</u>	<u>\$520,010</u>

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

The revenue anticipation notes, in the original 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, consisting of principal and interest, in the amount of \$125,000 and \$7,344, respectively, was made on June 1, 2013.

The bond anticipation notes in the special revenue fund, in the amount of \$30,000, were issued on February 8, 2012, to pay for the cost of a dump truck. The notes matured on February 8, 2013. As of December 31, 2012, none of the proceeds had been spent.

The bond anticipation notes in the special revenue fund, in the amount of \$85,000, were issued on February 8, 2012, to partially retire notes previously issued in 2011 to pay for the cost of improving State Routes 309, 61, and 598. The notes matured on February 8, 2013. As of December 31, 2012, none of the proceeds had been spent.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 17 - NOTES PAYABLE (continued)

The bond anticipation notes in the Water enterprise fund, in the amount of \$120,000, were issued on February 8, 2012, to partially retire notes previously issued in 2011 to improve water lines. The notes matured on February 8, 2013. As of December 31, 2012, all of the proceeds had been spent.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$289,600, were issued on February 8, 2012, to partially retire notes previously issued in 2011 to improve sanitary sewer lines. The notes matured on February 8, 2013. As of December 31, 2012, \$164,600 of the proceeds had been spent on items which were not capitalized and \$125,000 had not been spent.

The bond anticipation notes in the Storm Water enterprise fund, in the amount of \$110,410, were issued on February 8, 2012, to partially retire notes previously issued in 2011 to improve the storm water system. The notes matured on February 8, 2013. As of December 31, 2012, all of the proceeds had been spent.

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2012, was as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bond Anticipation Notes						
2011 Street Improvement						
(Original Amount \$765,000)	2.10%	\$765,000	\$0	\$765,000	\$0	\$0
2012 Dump Truck						
(Original Amount \$90,000)	1.95	0	90,000	0	90,000	90,000
2012 Street Improvement						
(Original Amount \$680,000)	1.95	0	680,000	0	680,000	680,000
Total General Obligation Bond Anticipation Notes		765,000	770,000	765,000	770,000	770,000
General Obligation Bonds						
2004 Various Purpose						
(Original Amount \$3,500,000)	5.00	1,050,000	0	350,000	700,000	350,000

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Governmental Activities</u> (continued)						
Other Long-Term Obligations						
OPWC Loans						
#CP02L	0.00%	\$104,695	\$0	\$13,087	\$91,608	\$13,087
Police Pension Liability		24,798	0	633	24,165	661
Fire Pension Liability		93,996	0	2,401	91,595	2,504
Capital Loan Payable (Fire Truck)		0	360,000	0	360,000	36,161
Compensated Absences Payable		631,772	69,839	2,057	699,554	213,004
Total Other Long-Term Obligations		<u>855,261</u>	<u>429,839</u>	<u>18,178</u>	<u>1,266,922</u>	<u>265,417</u>
Total Governmental Activities		<u>\$2,670,261</u>	<u>\$1,199,839</u>	<u>\$1,133,178</u>	<u>\$2,736,922</u>	<u>\$1,385,417</u>
	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Business-Type Activities</u>						
General Obligation Bonds						
2007 Electric Improvement						
(Original Amount \$8,952,000)	5.25%	\$7,322,000	\$0	\$491,000	\$6,831,000	\$517,000
2011 Electric Improvement						
(Original Amount \$2,500,000)	2.15	2,500,000	0	250,000	2,250,000	250,000
Total General Obligation Bonds		<u>9,822,000</u>	<u>0</u>	<u>741,000</u>	<u>9,081,000</u>	<u>767,000</u>
Other Long-Term Obligations						
OPWC Loans						
Railroad Street Waterline						
(Original Amount \$71,104)	0.00	37,330	0	3,555	33,775	3,555
West End Waterline						
(Original Amount \$140,000)	0.00	91,000	0	7,000	84,000	7,000
Cherry Street Sewer						
(Original Amount \$541,829)	0.00	67,268	0	26,907	40,361	26,907
Total OPWC Loans		<u>195,598</u>	<u>0</u>	<u>37,462</u>	<u>158,136</u>	<u>37,462</u>
OWDA Loans						
#2735 Raw Water Line						
(Original Amount \$480,881)	2.00	221,249	0	20,206	201,043	20,610
#3508 Water Treatment						
(Original Amount \$3,924,637)	2.00	2,924,568	0	116,692	2,807,876	119,037
#4088 Cheshire Subdivision						
(Original Amount \$983,863)	3.98	723,280	0	43,447	679,833	45,193

(continued)

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Business-Type Activities</u> (continued)						
OWDA Loans (continued)						
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98%	\$1,521,781	\$0	\$38,840	\$1,482,941	\$40,400
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,086,800	0	27,738	1,059,062	28,853
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	1,956,823	0	49,943	1,906,880	51,951
#4732 WWTP Bio-Solids (Original Amount \$2,762,322)	3.20	2,564,536	0	104,191	2,460,345	107,891
#4873 Water Tank Rehabilitation (Original Amount \$679,864)	4.61	612,926	0	24,425	588,501	25,564
#5176 WWTP Improvement Design (Original Amount \$198,094)		106,199	0	38,955	67,244	0
#6273 WWTP Influent Upgrade (Original Amount \$36,013)		0	36,013	0	36,013	0
Total OWDA Loans		11,718,162	36,013	464,437	11,289,738	439,499
AMP Ohio Payable - JV 2		1,292,777	0	197,101	1,095,676	149,182
AMP Ohio Payable		1,072,247	59,731	0	1,131,978	0
Compensated Absences Payable		593,455	0	69,616	523,839	123,919
Total Business-Type Activities		\$24,694,239	\$95,744	\$1,509,616	\$23,280,367	\$1,517,062

2012 Street Improvement General Obligation Bond Anticipation Notes

On February 8, 2012, the City issued \$90,000 in general obligation bond anticipation notes to pay for the cost of a dump truck. The notes matured on February 8, 2013. As of December 31, 2012, none of the proceeds had been spent.

2012 Street Improvement General Obligation Bond Anticipation Notes

On February 8, 2012, the City issued \$680,000 in general obligation bond anticipation notes to partially retire notes previously issued in 2011 to pay for the cost of improving State Routes 309, 61, and 598. The notes matured on February 8, 2013. As of December 31, 2012, none of the proceeds had been spent.

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.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

2007 Electric Improvement General Obligation Bonds

On December 21, 2007, the City issued \$8,952,000 in unvoted general obligation bonds to retire the Electric Improvement Loan, in the amount of \$4,927,000, and to upgrade an electric substation and the related distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on January 15, 2023. As of December 31, 2012, the City had unspent proceeds, in the amount of \$591,211.

2011 Electric Improvement General Obligation Bonds

On October 27, 2011, the City issued \$2,500,000 in unvoted general obligation bonds to improve the City's electrical distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on December 1, 2021. As of December 31, 2012, none of the proceeds had been spent.

OPWC Loans

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

OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for improvements to water and sewer lines and upgrades to the City's water and sewer treatment plants. OWDA loans are payable solely from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the loans (on completed projects for which amortization schedules are available) is \$15,449,760. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$409,203 and \$376,252, respectively. Total net revenues for the Water and Sewer enterprise funds were \$657,840 and \$1,674,115, respectively.

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

Compensated Absences Payable

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - 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 on the bonds.

These bonds will be paid solely from the gross revenues of the City's Electric enterprise fund after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the bonds is \$1,422,168. Principal and interest paid for the current year and total net revenues were \$288,115 and \$2,015,931, respectively.

AMP Ohio Payable

The City of Galion is a participant in American Municipal Power (AMP-Ohio) and a participant in the American Municipal Power Generating Station Project (AMPGS). This project was anticipated to develop a pulverized coal power plant in Meigs County, Ohio. As a participant, the City executed a take or pay contract on October 23, 2007, in order to participate in this project. The City's share of the project was 8,000 kW of a total capacity of 771,281 kW, giving the City a 1.04 percent share of the project.

The power plant had an estimated cost of \$3 billion; however, as construction progressed, the project's targeted capital costs increased by 37 percent and the engineer, procure, and construct contractor (EPC) could not guarantee that the construction costs would not continue to escalate. In November 2009, the participants in the project voted to terminate the development of the plant.

The take or pay contract executed by the participants requires the participants of the project to pay any costs incurred on the project. To date, the final costs to project participants have not been finalized. At December 31, 2012, AMP-Ohio had a regulatory asset for the recovery of the abandoned construction costs. Based on an allocation to the City of Galion of 8,000 kW and the allocation methodology approved by the AMP-Ohio Board of Trustees, the City of Galion has a potential stranded costs obligation of \$1,368,173 for the AMPGS project as of December 31, 2012.

At the time the participants voted to terminate the coal power plant, they also voted to pursue conversion of the project to a natural gas combined cycle plant. This plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the natural gas combined plant was suspended due to the availability of purchasing the AMP Fremont Energy Center (AFEC) at a favorable price. Along with the purchase of AFEC, a development fee was established. AFEC participants are a separate group of AMP-Ohio members that obtained financing for expertise in engineering, consulting, and other development costs obtained by AMP-Ohio for the natural gas combined cycle plant. This amount, financed by AMP-Ohio, is to be collected through debt service charges to the AFEC participants. The development fee paid by all AFEC participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in the proportion of their relative percentage of the AFEC project (but not less than zero) as approved by the AMP-Ohio Board of Trustees. The City of Galion is a participant in the AFEC project and has received a credit to reduce its share of the AMPGS stranded costs obligation.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Based on the allocation methodology approved by the AMP-Ohio Board of Trustees, the City received a credit of \$236,195 for being a participant in both projects. This credit is proportionate to its share of the AFEC project allocation kW share of 2,256 and the total kW share of those participating in both projects. This credit is legally enforceable up to the obligation as per the resolution approved by the AMP-Ohio Board of Trustees. As a result, the City is reporting a liability of \$1,131,978 related to the AMPGS project.

The City's legal debt margin was \$11,015,464 at December 31, 2012.

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

	Governmental Activities				
	General Obligation Bonds		OPWC Loan	Police and Fire Pension	
	Principal	Interest	Principal	Principal	Interest
2013	\$350,000	\$35,000	\$13,087	\$3,165	\$4,887
2014	350,000	17,500	13,087	3,302	4,750
2015	0	0	13,087	3,442	4,609
2016	0	0	13,087	3,590	4,462
2017	0	0	13,087	3,745	4,306
2018-2022	0	0	26,173	21,276	18,978
2023-2027	0	0	0	26,258	14,001
2028-2032	0	0	0	32,403	7,856
2033-2035	0	0	0	18,579	1,184
	\$700,000	\$52,500	\$91,608	\$115,760	\$65,033

The WWTP improvement design and WWTP influent upgrade projects funded by OWDA loans have not been completed. An amortization schedule for the repayment of the loans will not be available until the projects are completed and, therefore, are not included in the following schedule.

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

Year	Business-Type Activities		
	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2013	\$767,000	\$395,593	\$37,462
2014	796,000	362,510	24,009
2015	824,000	327,933	10,555
2016	855,000	291,805	10,555
2017	888,000	254,038	10,555
2018-2022	4,737,000	640,825	51,000
2023-2024	214,000	2,809	14,000
	\$9,081,000	\$2,275,513	\$158,136

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Year	OWDA Loans		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2013	\$439,499	\$374,576	\$149,182	\$70,035
2014	454,017	360,058	156,846	62,203
2015	469,052	345,023	165,058	53,969
2016	484,623	329,452	173,817	45,303
2017	500,745	313,328	182,029	37,134
2018-2022	2,741,967	1,303,776	268,744	57,848
2023-2027	2,909,047	822,753	0	0
2028-2032	2,355,225	355,388	0	0
2033-2035	832,306	58,925	0	0
	<u>\$11,186,481</u>	<u>\$4,263,279</u>	<u>\$1,095,676</u>	<u>\$326,492</u>

NOTE 19 - FUND BALANCE

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

Fund Balance	General	Police and Fire Levy	Other Governmental Funds
Nonspendable for:			
Materials and Supplies Inventory	\$0	\$0	\$104,600
Prepaid Items	14,375	0	4,643
Unclaimed Monies	4,181	0	0
Total Nonspendable	<u>18,556</u>	<u>0</u>	<u>109,243</u>
Restricted for:			
Airport Improvements	0	0	14,078
Debt Retirement	81,437	0	27,125
Depot Improvements	0	0	10,100
Drug Enforcement	0	0	83,452
Economic Development and Rehabilitation	0	0	1,099,146
Park Improvements	0	0	979
Park Operations	0	0	266,052
Police and Fire Operations	0	723,978	12,903
Street Construction and Maintenance	0	0	1,441,820
Total Restricted	<u>81,437</u>	<u>723,978</u>	<u>2,955,655</u>
Assigned for:			
Unpaid Obligations	75,449	0	0
Unassigned (Deficit)	5,515,477	0	(171,190)
Total Fund Balance	<u>\$5,690,919</u>	<u>\$723,978</u>	<u>\$2,893,708</u>

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 20 - INTERFUND TRANSFERS

During 2012, the General Fund made transfers to other governmental funds, in the amount of \$2,041,633 to subsidize various programs in other funds.

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

The Water enterprise fund made transfers to other governmental funds, in the amount of \$13,644, to move receipts as debt payments came due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$22,260, to move receipts as debt payments came due.

NOTE 21 - 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's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2012, the Foundation's investments consisted of the following:

	<u>Fair Value</u>
Equities	\$5,953,294
Fixed Income	3,001,696
Cash Equivalents	286,674
	<u>\$9,241,664</u>

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 22 - JOINT VENTURES

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

The City is a participant, with twenty-one other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$13,801 to the joint venture in 2012 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 \$27,650 at December 31, 2012. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of operation and maintenance expenses of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes, or other indebtedness payable from any revenues of the system. Under the terms of the Agreement, each financing participant is to fix, charge, and collect rates, fees, and charges at least sufficient enough to maintain a debt coverage ratio equal to 110 percent of the sum of JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012, the City met its debt coverage obligation.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 22 - JOINT VENTURES (continued)

JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The project consists of 138.65 MW of distributed generation (of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. During 2011, AMP-Ohio retired the remaining balance of the bonds; however, the City is still responsible for paying the remainder of their obligation for this debt to AMP-Ohio. The City's net obligation for these bonds at December 31, 2012, was \$1,095,676 (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 \$1,123,261 at December 31, 2012. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at www.auditor.state.oh.us.

NOTE 23 - JOINTLY GOVERNED ORGANIZATION

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

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

NOTE 24 - RELATED ORGANIZATION

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

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

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, April 2007, April 2008, December 2009, December 2010, December 2011, and December 2012.

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, 2012, the City was still in fiscal emergency and has not determined when this situation will be resolved.

For 2006 through 2012, the City was able to prepare a budget in which current year expenditures/expenses were within current year revenues.

NOTE 26 - CONTINGENT LIABILITIES

A. Litigation

There are currently no matters in litigation with the City as defendant.

B. Federal and State Grants

For the period January 1, 2012, to December 31, 2012, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 27 - SUBSEQUENT EVENT

On February 7, 2013, the City issued \$1,067,516 in bond anticipation notes to retire notes previously issued for the improvement of sanitary sewer lines and the storm water system, for water line replacement, for the widening of State Route 598, to acquire a dump truck and plow for the street department, and to improve the wastewater treatment plant. The notes have an interest rate of 1.85 percent and mature on February 7, 2014.

City of Galion
Notes to the Basic Financial Statements
For the Year Ended December 31, 2012

NOTE 27 - SUBSEQUENT EVENT (continued)

In November 2012, the voters of the City of Galion voted to eliminate the City's charter form of government which had been in place since January 1986 and return to statutory form of government. The transition of government occurred on June 1, 2013.

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

September 30, 2013

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2013, 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. Additionally the City has adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 30, 2013.

Purpose of this Report

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

Respectfully Submitted,

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

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



Dave Yost • Auditor of State

CITY OF GALION

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 19, 2013