



**Auditor of State
Betty Montgomery**

**City of Galion
Crawford County, Ohio**

**Fiscal Emergency Analysis
As of December 31, 2003 and May 31, 2004**

Local Government Services

City of Galion

Fiscal Emergency Analysis

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Declaration of Fiscal Emergency

The Auditor of State performed a fiscal analysis of the City of Galion pursuant to Section 118.03 of the Ohio Revised Code. This analysis indicates and it is hereby declared that a fiscal emergency exists at the City of Galion as defined by Sections 118.03(A)(5), 118.03(A)(6) and 118.03(B) of the Ohio Revised Code.

Accordingly, on behalf of the Auditor of State, this report is hereby submitted and filed with Phil Honsey, City Manager; Denny Little, President of Council for the City of Galion; Bob Taft, Governor; J. Kenneth Blackwell, Secretary of State; Joseph T. Deters, Treasurer of State; Thomas W. Johnson, Director of the Office of Budget and Management and the Crawford County Budget Commission.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 9, 2004

City of Galion, Crawford County

Fiscal Emergency Analysis

Introduction

As provided by Section 118.04(A) of the Ohio Revised Code, Council President Denny Little requested that a fiscal analysis be performed by the Auditor of State for the City of Galion (the City). The purpose of the analysis was to determine if the financial condition of the City justifies the declaration of a fiscal emergency.

A city is placed in fiscal emergency if any one of six conditions described in Section 118.03 of the Ohio Revised Code exists. The six conditions are: 1) default on a debt obligation; 2) failure to make payment of all payroll; 3) an increase in the minimum levy of the city which results in the reduction in the minimum levy of another subdivision; 4) significant past due accounts payable; 5) substantial deficit balances in city funds; and 6) a sizeable deficiency when the city's treasury balance is compared to the positive cash balances of the city's funds. The year-end conditions described under Conditions 4, 5, and 6, of this report must exist both at year-end and at the time of the analysis to justify the declaration of an emergency.

This report identifies the procedures performed and the conclusions reached with respect to each condition as of December 31, 2003 and May 31, 2004, the most recent date that reconciled financial data was available.

Condition One - Default on Any Debt Obligation

Section 118.03(A)(1) of the Ohio Revised Code defines a fiscal emergency condition as:

The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a default on any debt obligation for more than thirty days.

A summary of the City's outstanding debt is as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Issue Amount</u>
<u>General Obligation Bonds</u>			
Library Bonds	7.50-7.75%	06/01/91	\$800,000
Wastewater Treatment Improvements	9.625%	01/01/83	2,100,000
<u>Bond Anticipation Notes</u>			
Various Purpose	1.625%	06/05/03	6,145,000
Electric Improvements	1.40%	11/14/03	5,500,000
<u>Revenue Bonds</u>			
Electric Improvement Bonds	4.00-5.25%	01/01/02	2,751,516
<u>Loans Payable</u>			
OPWC Street Improvements	0.00%	01/01/97	193,724
OPWC Cherry Street Sanitation	0.00%	01/01/94	541,829
OWDA Water Improvements	2.00%	07/01/97	380,779
OWDA Sewer Improvements	2.00%	07/01/97	100,106
OPWC Railroad Street Waterline Improvements	0.00%	07/01/02	71,104
OWDA Wastewater Treatment Improvements	2.00%	01/01/03	3,924,637

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Capital Leases Payable

Case 85 XT Skid Steer	4.50%	03/28/02	\$33,663
Various Vehicles	5.75%	2/28/02	485,000
Jet Vac Sewer Cleaner	5.75%	04/23/01	212,651
Case Skip Steer Loader	4.50%	10/28/03	24,853

We obtained a list of outstanding debt from the 2002 audited financial statements, the authorizing legislation for debt issued from January 1, 2003 to May 30, 2004, and the amortization schedules to identify the last scheduled payments due before May 30, 2004. These payments were traced from the expenditure ledger to the checks issued to the paying agents and the bank statement to determine if the City was meeting its debt obligations. There were no debt payments more than 30 days past due. The bond anticipation notes and the Case Skip Steer Loader capital lease did not have payments due before May 30, 2004. For the remaining debt issues, the payment dates and the amounts due are presented below:

Debt Issue	Payment Date	Amount Due	Payments 30 Days Past Due At May 30, 2004
<u>General Obligation Bonds</u>			
Library Bonds	December 31, 2003	\$62,906	0
Wastewater Treatment Improvements	January 1, 2004	109,625	0
<u>Revenue Bonds</u>			
Electric Improvement Bonds	May 30, 2004	18,046	0
<u>Loans Payable</u>			
OPWC Street Improvements	January 1, 2004	9,686	0
OPWC Cherry Street Sanitation	January 1, 2004	13,454	0
OWDA Water Improvements	January 1, 2004	9,752	0
OWDA Sewer Improvements	January 1, 2004	2,564	0
OPWC Railroad Street Waterline Improvements	January 1, 2004	1,778	0
OWDA Wastewater Treatment Improvements	January 1, 2004	87,301	0
<u>Capital Leases Payable</u>			
Case 85 XT Skid Steer	March 28, 2004	8,979	0
Various Vehicles	December 21, 2003	54,039	0
Jet Vac Sewer Cleaner	April 23, 2004	47,413	0

Conclusion: A fiscal emergency condition does not exist under Ohio Revised Code Section 118.03(A)(1). No default on any debt obligation for more than thirty days existed at May 31, 2004.

Condition Two - Payment of All Payroll

Section 118.03(A)(2) of the Ohio Revised Code, defines a fiscal emergency condition as:

The existence, at the time of the determination by the Auditor of State under Section 118.04 of the Revised Code, of a failure for lack of cash in the funds to make payment of all payroll to employees of the municipal corporation, county, or township in the amounts and at the times required by law, ordinances, resolutions, or agreements, which failure of payment has continued:

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- a. For more than thirty days after such time for payment, or
- b. Beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever first occurs, if the time for payment has been extended for more than thirty days by the written consent of at least two-thirds of the employees affected by such failure to pay, acting individually or by their duly authorized representatives.

We obtained an understanding of the payroll process through various discussions with the interim finance director and payroll clerk. We obtained payroll reports, a list of employees, pay rate legislation, the bargaining unit agreements, and bank statements for the period being tested. We then verified that payroll checks were issued to employees for the pay period ended May 15, 2004, by comparing the payroll reports with the bank statements. We verified that employees were paid in the amounts established in the pay rate legislation and the bargaining unit agreements. This procedure was performed to ascertain whether City employees had been paid within the time specified by Sections 118.03(A)(2)(a) and (b) of the Ohio Revised Code. Also, we determined that adequate cash was in the bank account to cover the payroll.

Conclusion: A fiscal emergency condition does not exist under Section 118.03(A)(2) of the Ohio Revised Code as of May 31, 2004. All employees have been paid in amounts and at the times required by City ordinance.

Condition Three - Increase in Minimum Levy

Section 118.03(A)(3) of the Ohio Revised Code defines a fiscal emergency condition as:

An increase, by action of the county budget commission pursuant to division (D) of Section 5705.31 of the Revised Code, in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other subdivisions or taxing districts.

We confirmed with the Crawford County Budget Commission whether there had been an increase, pursuant to division (D) of Section 5705.31 of the Ohio Revised Code, in the minimum levy of the City for 2003 or 2004, which resulted in a reduction in the minimum levies for one or more other subdivisions or taxing districts. The confirmation received from the Crawford County Budget Commission indicated that the Commission had not taken any action in 2003 or 2004 to increase the inside millage of the City and, therefore, no other subdivision's inside millage was reduced to increase the inside millage of the City.

Conclusion: A fiscal emergency condition does not exist under Section 118.03(A)(3) of the Ohio Revised Code. The Crawford County Budget Commission has not taken any action to increase the inside millage of the City, thus reducing another subdivision's millage.

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Condition Four - Past Due Accounts Payable from the General Fund and All Funds

Section 118.03(A)(4) of the Ohio Revised Code, defines a fiscal emergency condition as:

The existence of a condition in which all accounts that, at the end of its preceding fiscal year, were due and payable from the general fund and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, including, but not limited to, final judgments, fringe benefits payments due and payable, and amounts due and payable to persons and other governmental entities and including any interest and penalties thereon, less the year-end balance in the general fund, exceeded one-sixth of the general fund budget for that year, or in which all accounts that, at the end of its preceding fiscal year, were due and payable from all funds of the municipal corporation, county, or township and that either had been due and payable for at least thirty days as at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds lawfully available to pay such accounts, exceeded one-sixth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts lawfully are payable. Accounts due and payable shall not include any account, or portion thereof, that is being contested in good faith.

We prepared a schedule of accounts payable as of December 31, 2003, that were due and payable from the general fund, and that had been due and payable for at least thirty days, or to which a penalty had been added for failure to pay as of December 31, 2003, including, but not limited to, final judgments, fringe benefits payments due and payable, and amounts due and payable to persons and other governmental entities, including any interest and penalties. From this amount we subtracted the year-end balance in the general fund to determine if the accounts payable in excess of the available balance exceeded one-sixth of the general fund budget for that year.

Schedule I

General Fund Accounts Payable Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2003

	Payables Over 30 Days Past Due	General Fund Balance Available	Balance in Excess of Payables
General	\$4,058	\$153,968	\$158,026

From invoices provided to us, a schedule of accounts payable was prepared (as defined above) for all funds which were at least thirty days past due or to which a penalty was added as of December 31, 2003. From this amount we subtracted the year end fund balance available to pay such outstanding bills. We then determined if the accounts payable in excess of the available fund balance exceeded one-sixth of the available revenues during 2003, excluding non-recurring receipts, of the general fund and of all special funds from which such accounts are lawfully payable.

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Schedule II

All Funds Accounts Payable Over 30 Days Past Due
Ohio Revised Code Section 118.03(A)(4)
As of December 31, 2003

	Payables Over 30 Days Past Due	Fund Balance Available	Payables in Excess of Available Balance	One-Sixth of the Revenues Lawfully Available	Accounts Payable in Excess of Available Revenue
General	\$4,058	\$153,968	\$0	\$0	\$0
Street Maintenance	362	0	362	139,154	0
Street Improvement	5,578	0	5,578	76,015	0
Water Operating	1,196	1,433,438	0	0	0
Electric Operating	2,531	0	2,531	1,370,770	0
Electric Improvement	49,976	0	49,976	916,667	0
General Governmental	28,827	0	28,827	289,241	0
	<u>\$92,528</u>	<u>\$1,587,406</u>	<u>\$87,274</u>	<u>\$2,791,847</u>	<u>\$0</u>

Conclusion: Schedules I and II indicate that as of December 31, 2003, a fiscal emergency condition does not exist under Section 118.03(A)(4) of the Ohio Revised Code. Accounts payable from the general fund which were at least thirty days past-due at the end of the year did not exceed the available balance in the general fund and the accounts payable from all funds which were at least thirty days past-due at the end of the year did not exceed the available balance and one-sixth of the available revenue. An analysis as of the date of determination was not completed because a fiscal emergency condition did not exist at year-end.

Condition Five - Deficit Fund Balances

Section 118.03(A)(5) of the Ohio Revised Code defines a fiscal emergency condition as:

The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of its preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Section 5705.14 of the Revised Code to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.

We computed the adjusted aggregate sum of all deficit funds as of December 31, 2003, by subtracting all accounts payable and encumbrances from the year-end cash fund balance of each fund. We then determined if the aggregate deficit fund balance exceeded one-sixth of the general fund budget and the revenues lawfully available to those deficit funds. We then identified funds that may be transferred, as provided in Section 5705.14 of the Ohio Revised Code, to meet such deficits to arrive at the unprovided portion of the aggregate deficit.

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Schedule III

Deficit Fund Balances
Ohio Revised Code Section 118.03(A)(5)
As of December 31, 2003

	Cash Fund Balance	Less Accounts Payable and Encumbrances	Adjusted Aggregate Sum of Funds with Deficit Balances	Less One-Sixth of the Receipts Lawfully Available	Unprovided Portion of Aggregate Deficit
Income Tax	(\$141,557)	\$0	(\$141,557)	\$105,934	(\$35,623)
Street Maintenance	(2,724,888)	(41,564)	(2,766,452)	53,321	(2,713,131)
Street Improvement	(530,214)	(5,578)	(535,792)	76,015	(459,777)
Debt Retirement	(61,629)	0	(61,629)	53,036	(8,593)
CDBG Escrow	(271,652)	(43,157)	(314,809)	10	(314,799)
Water Improvement	(985,785)	(300)	(986,085)	371,770	(614,315)
Sewer Improvement	(88,926)	(39,900)	(128,826)	250,000	0
Electric Operating	(114,672)	(623,909)	(738,581)	1,370,770	0
Electric Improvement	(4,087,216)	(130,558)	(4,217,774)	916,667	(3,301,107)
Airport	(235,232)	(2,453)	(237,685)	33,932	(203,753)
Police Pension	0	(6,932)	(6,932)	6,169	(763)
Fire Pension	0	(9,381)	(9,381)	6,169	(3,212)
General Government	0	(333,648)	(333,648)	289,241	(44,407)
Subtotal	<u>(\$9,241,771)</u>	<u>(\$1,237,380)</u>	<u>(\$10,479,151)</u>	<u>\$3,533,034</u>	<u>(7,699,480)</u>
One-Sixth of General Fund Budget					674,032
Funds available for transfer from the General Fund					149,910
Total Unprovided Portion of Aggregate Deficit Funds					<u>(\$6,875,538)</u>

Section 118.03(B) of the Ohio Revised Code, provides in part:

Any year-end condition described in division (A)(5) of this section shall not constitute a fiscal emergency condition if the municipal corporation, county, or township clearly demonstrates to the satisfaction of the Auditor of State prior to the time of the Auditor of State's determination that such condition no longer exists at the time of the determination pursuant to Section 118.04 of the Revised Code. For the purpose of such demonstration, there shall be taken into account deficit amounts of deficit funds at the time of such demonstration, rather than at the end of the fiscal year, and there shall be taken into account the moneys and marketable securities in the treasury of the municipal corporation, county, or township at the time of such demonstration that are in the case of division (A)(5) of this section, held for the general fund or any special fund that may be transferred as provided in section 5705.14 of the Ohio Revised Code to meet such deficit.

We computed the adjusted aggregate sum of all deficit funds as of May 31, 2004, by subtracting all accounts payable and encumbrances from the year-end cash fund balance of each fund. We then determined if the aggregate deficit fund balance exceeded one-sixth of the general fund budget and the revenues lawfully available to those deficit funds. We then identified funds that may be transferred, as provided in Section 5705.14 of the Ohio Revised Code, to meet such deficits to arrive at the unprovided portion of the aggregate deficit.

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Schedule IV

Deficit Fund Balances
Ohio Revised Code Section 118.03(B)
As of May 31, 2004

	Cash Fund Balance	Less Accounts Payable and Encumbrances	Adjusted Aggregate Sum of Funds with Deficit Balances	Less One-Sixth of The Receipts Lawfully Available	Unprovided Portion of Aggregate Deficit
Street Maintenance	(\$2,802,845)	(\$65,352)	(\$2,868,197)	\$63,854	(\$2,804,343)
Street Improvement	(493,714)	0	(493,714)	75,165	(418,549)
Debt Retirement	(41,123)	0	(41,123)	60,875	0
CDBG Escrow	(314,558)	0	(314,558)	101	(314,457)
Water Improvement	(1,000,818)	(300)	(1,001,118)	308,333	(692,785)
Sewer Operating	449,765	(581,327)	(131,562)	227,263	0
Sewer Improvement	(128,825)	0	(128,825)	250,000	0
Electric Operating	994,868	(1,846,604)	(851,736)	1,349,778	0
Electric Improvement	(4,361,968)	(68,365)	(4,430,333)	916,667	(3,513,666)
Airport	(210,012)	(7,565)	(217,577)	35,874	(181,703)
Police Pension	0	(35,950)	(35,950)	8,194	(27,756)
Fire Pension	0	(56,758)	(56,758)	8,194	(48,564)
General Government	91,702	(441,708)	(350,006)	286,666	(63,340)
Subtotal	<u>(\$7,817,528)</u>	<u>(\$3,103,929)</u>	<u>(\$10,921,457)</u>	<u>\$3,590,964</u>	<u>(8,065,163)</u>
One-Sixth of General Fund Budget					882,442
Funds available for transfer from General Fund					303,609
Total Unprovided Portion of Aggregate Deficit Funds					<u>(\$6,879,112)</u>

Conclusion: Schedules III and IV indicate that a fiscal emergency condition exists under Sections 118.03(A)(5) and 118.03(B) of the Ohio Revised Code as of December 31, 2003, and May 31, 2004. The total unprovided portion of the aggregate deficit funds as of December 31, 2003, and May 31, 2004, is \$6,875,538 and \$6,879,112, respectively.

Condition Six - Treasury Deficiency

Section 118.03(A)(6) of the Ohio Revised Code, defines a fiscal emergency condition as:

The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

City of Galion, Crawford County

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Section 118.03(B) of the Ohio Revised Code provides, in part:

Any year-end condition described in division (A)(6) of this section shall not constitute a fiscal emergency condition if the municipal corporation, county, or township clearly demonstrates to the satisfaction of the Auditor of State prior to the time of the Auditor of State's determination that such condition no longer exists at the time of the determination pursuant to Section 118.04 of the Revised Code. For the purpose of such demonstration, there shall be taken into account positive balances as at the time of such determination, rather than at the end of the fiscal year and there shall be taken into account the moneys and marketable securities in the treasury of the municipal corporation, county, or township at the time of such demonstration that are in the case of division (A)(6) of this section, held to meet such positive balances.

We verified the City's reconciled bank balance to its statement of cash position for all funds as of December 31, 2003, and as of May 31, 2004, which included subtracting the outstanding items to arrive at a treasury balance. We then determined the aggregate sum of positive balances of all appropriate funds, the purpose of which the unsegregated treasury is held to meet, to determine the treasury deficit. We then subtracted from the treasury deficit one-sixth of the estimated amount to be received into the treasury during 2004 to determine the treasury deficiency.

In December 2003, the finance director issued checks to vendors for goods and services that exceeded the available cash in the City's primary checking account. To cover the shortage in the primary checking account, the finance director wrote checks against another account at a different bank, which exceeded its balance, and deposited the checks into the primary checking account. At a later date, a check was written against the primary checking account and deposited in the other checking account to eliminate the shortage in that account that would exist once the check was presented for payment. This practice temporarily increased the amount of cash in the recipient account for the period it took the checks to clear the paying bank. At December 31, 2003, and May 31, 2004, there were outstanding checks in the amount of \$830,000 and \$2,500,000, respectively. These checks are presented as outstanding bank transfers in the schedule below. The \$2,500,000 outstanding at the end of May 2004 was issued on March 23, 2004 and is still outstanding.

City of Galion, Crawford County

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Schedule V

Treasury Balance
Revised Code Section 118.03(A)(6) and (B)
As of December 31, 2003 and May 31, 2004

	<u>December 31, 2003</u>	<u>May 31, 2004</u>
Bank Account Balances:		
Primary Checking Account	\$155,403	\$1,205,820
F and E Account	1,016	1,019
Drug and Enforcement Account	4,599	10,437
Law and Enforcement Account	676	677
Recreation Account	14	66
Escrow Account	474	9,580
Health Account	9,603	726
PECO II Ballfield Account	0	4,243
Adjustments:		
Outstanding Bank Transfers - Primary Checking Account	(830,000)	(2,500,000)
Outstanding Checks - Primary Checking Account	(1,556,337)	(102,759)
Total Treasury Balance (Deficit)	<u>(2,214,552)</u>	<u>(1,370,191)</u>
Positive Fund Balances:		
General	254,005	567,171
General Improvement	11,113	16,951
Income Tax	0	61,863
State Highway	120,890	131,760
CDBG Escrow	451,013	267,053
Cheshire Construction	1,000,000	1,000,000
Freese Foundation	1,000,000	1,000,000
Revolving Loan	480,074	480,074
Water Operating	1,573,198	1,518,798
Sewer Operating	607,272	449,765
Electric Operating	0	994,868
Stormwater	1,304,771	1,174,372
Utility Deposit	198,857	205,635
Health Insurance	26,189	23,002
General Government	0	91,702
Total Positive Cash Fund Balances	<u>7,027,382</u>	<u>7,983,014</u>
Treasury Balance Less Positive Fund Balances	(9,241,934)	(9,353,205)
One-sixth Treasury Receipts	5,150,121	5,003,137
Treasury Deficiency	<u>(\$4,091,813)</u>	<u>(\$4,350,068)</u>

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Conclusion: Schedule V indicates that a fiscal emergency condition exists under Sections 118.03(A)(6) and 118.03(B) of the Ohio Revised Code as of December 31, 2003, and May 31, 2004. Schedule V indicates that the treasury balance less the positive fund balances did exceed one-sixth of the treasury receipts as of December 31, 2003 and May 31, 2004, by \$3,484,541 and \$4,350,068, respectively.

Summary

A fiscal emergency is the existence of at least one of the above defined conditions. This analysis indicates that a fiscal emergency exists at the City of Galion as defined in Sections 118.03(A)(5), 118.03(A)(6) and 118.03(B) of the Ohio Revised Code as presented in Schedules III, IV, and V above as of December 31, 2003, and May 31, 2004.

Because the above procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to you.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
AUGUST 9, 2004**