



Mary Taylor, CPA
Auditor of State

**CITY OF GALION
CRAWFORD COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Auditor of State served during the year ended December 31, 2008, as the City's financial supervisor under Ohio Revised Code §118.05(G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the City because the Auditor of State may assume broad management powers, duties, and function under Ohio Revised Code §118.04. However, *Government Auditing Standards* permit the Auditor of State to audit and opine on this entity because Ohio Revised Code §118.05(G) requires the Auditor of State to provide these supervisory services, and Ohio Revised Code §§117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinions.

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

As described in Note 26, 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 §118.05(G), the Auditor of State served as the City's financial supervisor.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the FFCU's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the City of Galion, Crawford County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Police and Fire Levy Fund, and Street Maintenance Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



Mary Taylor, CPA
Auditor of State

July 31, 2009

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
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, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2008 are as follows:

In total, the City's net assets increased almost 17 percent from the prior year; 16 percent for governmental activities and 17 percent for business-type activities. These increases are somewhat significant and while both revenues and expenses have remained fairly comparable to the prior year (moderate increases for both), the excess of revenues over expenses resulted in the increase in net assets for both governmental and business-type activities.

General revenues made up 67 percent of the total revenues for governmental activities in 2008, and of this amount, 66 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

Although the City has entered into its fifth year since being declared in fiscal emergency, the City has made significant progress to date. The City has eliminated deficits in several of its funds and, although continuing to maintain a very strict budget, has been able to move forward with several important projects and, in 2008, finally provided a salary increase to its employees who have gone without an increase for three years. While the City is still unable to project when it will emerge from fiscal emergency, this progress reflects the diligence of City officials, employees, and the entire community in regaining financial stability in the City.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2008. 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
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

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

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

- **Governmental Activities** - Most of the City's programs and services are reported here, including security of persons and property, public health, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property 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 and Street Maintenance special revenue funds, 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.

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.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2008 and 2007.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Assets</u>						
Current and Other Assets	\$7,853,072	\$5,795,731	\$18,177,101	\$18,215,291	\$26,030,173	\$24,011,022
Capital Assets, Net	15,660,940	14,422,836	23,793,194	20,765,961	39,454,134	35,188,797
Total Assets	<u>23,514,012</u>	<u>20,218,567</u>	<u>41,970,295</u>	<u>38,981,252</u>	<u>65,484,307</u>	<u>59,199,819</u>
<u>Liabilities</u>						
Current and Other Liabilities	2,795,675	1,560,468	2,278,975	1,990,282	5,074,650	3,550,750
Long-Term Liabilities	3,176,345	3,564,112	21,553,683	21,486,635	24,730,028	25,050,747
Total Liabilities	<u>5,972,020</u>	<u>5,124,580</u>	<u>23,832,658</u>	<u>23,476,917</u>	<u>29,804,678</u>	<u>28,601,497</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	12,824,151	11,790,090	7,877,162	5,794,435	20,701,313	17,584,525
Restricted	2,347,292	2,588,834	0	0	2,347,292	2,588,834
Unrestricted	2,370,549	715,063	10,260,475	9,709,900	12,631,024	10,424,963
Total Net Assets	<u>\$17,541,992</u>	<u>\$15,093,987</u>	<u>\$18,137,637</u>	<u>\$15,504,335</u>	<u>\$35,679,629</u>	<u>\$30,598,322</u>

A review of the above table reflects several significant changes from the prior year for governmental activities. Current and other assets increased \$2 million, primarily due to an increase in cash and cash equivalents. For 2008, there was a 14 percent increase in revenues and just a 5 percent increase in expenses. This provided for a larger balance in cash resources at year end. This increase is also reflected in the increase in unrestricted net assets. The other change of note is the increase in current and other liabilities. Two factors led to this increase. The City had a large liability payable to the Ohio Department of Transportation for the City's contribution towards the Urban Paving Project, a project which will occur in 2009. In addition, the City issued bond anticipation notes near the end of 2008, the proceeds of which are funding the City's contribution for the Urban Paving Project.

For business-type activities, the only change of significance was the increase in net capital assets and invested in capital assets. This is the result of ongoing construction on a number of projects, including the bio-solids project, a lift station, water tower rehabilitation, and an electric substation to name a few.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for 2008 and 2007.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$1,434,041	\$1,322,873	\$15,121,053	\$14,937,097	\$16,555,094	\$16,259,970
Operating Grants, Contributions, and Interest	1,087,869	1,016,825	0	0	1,087,869	1,016,825
Capital Grants and Contributions	715,240	186,870	422,744	354,048	1,137,984	540,918
Total Program Revenues	3,237,150	2,526,568	15,543,797	15,291,145	18,780,947	17,817,713
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	395,565	426,874	0	0	395,565	426,874
Property Taxes Levied for Police and Fire Pension	72,392	78,445	0	0	72,392	78,445
Municipal Income Taxes Levied for General Purposes	2,199,139	1,792,831	0	0	2,199,139	1,792,831
Municipal Income Taxes Levied for Police and Fire	1,957,563	1,699,782	0	0	1,957,563	1,699,782
Municipal Income Taxes Levied for Recreation	241,356	214,009	0	0	241,356	214,009
Other Local Taxes	443,157	457,085	0	0	443,157	457,085
Grants and Entitlements not Restricted to Specific Programs	617,052	651,223	0	0	617,052	651,223
Franchise Fees	118,199	0	0	0	118,199	0
Interest	167,584	315,497	58,445	4,595	226,029	320,092
Other	462,664	508,739	326,927	409,409	789,591	918,148
Total General Revenues	6,674,671	6,144,485	385,372	414,004	7,060,043	6,558,489
Total Revenues	9,911,821	8,671,053	15,929,169	15,705,149	25,840,990	24,376,202
<u>Program Expenses</u>						
<u>Security of Persons and Property</u>						
Police	1,667,279	1,605,982	0	0	1,667,279	1,605,982
Fire	1,630,940	1,558,823	0	0	1,630,940	1,558,823
Public Health	422,506	366,745	0	0	422,506	366,745
Leisure Time Activities	260,455	236,674	0	0	260,455	236,674
Community Environment	257,184	267,385	0	0	257,184	267,385
Transportation	1,623,790	1,472,559	0	0	1,623,790	1,472,559
General Government	1,370,129	1,321,247	0	0	1,370,129	1,321,247
Interest and Fiscal Charges	187,743	219,721	0	0	187,743	219,721
Water	0	0	1,823,826	1,707,781	1,823,826	1,707,781
Sewer	0	0	1,814,356	1,470,243	1,814,356	1,470,243
Electric	0	0	9,389,184	9,005,076	9,389,184	9,005,076
Storm Water	0	0	312,291	248,112	312,291	248,112
Total Expenses	7,420,026	7,049,136	13,339,657	12,431,212	20,759,683	19,480,348

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Increase in Net Assets Before Transfers	\$2,491,795	\$1,621,917	\$2,589,512	\$3,273,937	\$5,081,307	\$4,895,854
Transfers	(43,790)	(1,009,493)	43,790	1,009,493	0	0
Increase in Net Assets	2,448,005	612,424	2,633,302	4,283,430	5,081,307	4,895,854
Net Assets Beginning of Year	15,093,987	14,481,563	15,504,335	11,220,905	30,598,322	25,702,468
Net Assets End of Year	<u>\$17,541,992</u>	<u>\$15,093,987</u>	<u>\$18,137,637</u>	<u>\$15,504,335</u>	<u>\$35,679,629</u>	<u>\$30,598,322</u>

The above table reflects the revenues and expenses for operating the City for the past two years. While there was an overall increase of 14 percent in total revenues for governmental activities, most revenue sources were comparable to the prior year with just modest increases and decreases. Changes which stand out, however, are the increase in capital grants and contributions (due to grant resources the City received from the U.S. Department of Transportation for airport improvements) and the decrease in interest revenues (a reflection of the declining economic conditions being realized nationwide).

With an overall increase in expenses of 5 percent for governmental activities, expenses also remained consistent with those of the prior year. Note that police and fire operations account for 44 percent of the City's total expenses and the street department operations account (i.e. transportation) for another 22 percent of total expenses. These three departments, along with the basic costs of city general government operations (administration, receipt collections, paying bills, etc.), account for 85 percent of all of the City's governmental expenses.

As is to be expected, over 97 percent of the revenues for business-type activities are received through charges for services provided to the users of the systems. By far, the electric distribution system is the City's largest enterprise as demonstrated by the costs to operate the system. As is the intent of enterprise operations, the costs of the City's four utilities were recovered through user charges in 2008.

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.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Security of Persons and Property				
Police	\$1,667,279	\$1,605,982	\$1,589,503	\$1,540,678
Fire	1,630,940	1,558,823	1,172,206	1,115,777
Public Health	422,506	366,745	218,259	146,301
Leisure Time Activities	260,455	236,674	232,462	224,364
Community Environment	257,184	267,385	(13,447)	(84,620)
Transportation	1,623,790	1,472,559	(80,917)	561,236
General Government	1,370,129	1,321,247	877,067	799,111
Interest and Fiscal Charges	187,743	219,721	187,743	219,721
Total Expenses	<u>\$7,420,026</u>	<u>\$7,049,136</u>	<u>\$4,182,876</u>	<u>\$4,522,568</u>

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 48 percent of public health costs. Operating and capital grants provided revenues in excess of program costs in 2008 for 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 were in excess of transportation costs in 2008 (the transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes). In addition, this program also received a grant for airport improvements from the U.S. Department of Transportation in 2008. Program revenues also provided for 36 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 and Street Maintenance special revenue funds. The General Fund experienced a \$1.3 million increase in fund balance in 2008, a similar increase occurred in the prior year as well. Revenues in the General Fund reflect a slight increase of less than 2 percent from the prior year. Expenditures increased 9 percent overall, a portion of which can be attributed to salary and benefit increases. In addition, due to continued strict monitoring and limited spending from the General Fund (due to the City's fiscal emergency situation), revenues substantially exceeded expenditures for 2008.

The Police and Fire Levy Fund had a decrease in fund balance of \$133,782, also generally due to salary and benefit increases.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

The decrease in the Street Maintenance Fund was not significant.

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 assets, all four funds experienced an operating income in 2008.

In July 2005, the City implemented rate increases for water, sewer, and electric. The City increased rates for both water and sewer again in January 2006, 2007, 2008, and 2009. An additional \$1.00 storm water fee was effective in January 2009 and will raise another \$1.00 in January 2010. There are no future rate increases currently scheduled for electric other than the Power Cost Adjustment (PCA) to recapture the City's cost for electricity. The City entered into contracts to reevaluate the rates for water, sewer, and electric to ensure they will be sufficient to pay the costs of current operations as well as begin to accumulate resources for capital improvements. These rate studies have been completed and City Council is evaluating the amount and timing of future rate increases.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January. The City's most significant budgeted fund is the General Fund. For revenues, there was no change from the original budget to the final budget; however, there was an increase of almost 12 percent from the final budget to actual revenues received. This was primarily due to conservative estimates for municipal income taxes and intergovernmental revenues (resources primarily provided by the State). For expenditures, changes from the original budget to the final budget were not significant. There was a 14 percent decrease from the final budget to actual expenditures, again, due to restricting spending as much as possible in the City's efforts towards financial recovery. Also, note that the City did not budget for principal and interest payments on the local government fund notes. In accordance with section 118.17 of the Ohio Revised Code, the City is restricted from budgeting for these expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2008, was \$15,660,940 and \$23,793,194, respectively (net of accumulated depreciation). The additions for governmental activities included construction on various park, street, and airport improvements, equipment for the fire department, and three cruisers. The primary additions for business-type activities consisted of continued construction at the sewer treatment plant and of the Railroad Street substation, new storm water lines, rehabilitation of the Brandt Road water tank, and three trucks for the electric department (including a bucket truck). Disposals were minimal for both governmental and business-type activities. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2008, the City had \$555,000 in revenue anticipation notes and \$550,000 in bond anticipation notes payable from governmental activities. There was \$431,000 in bond anticipation notes from business-type activities. The City also had a number of long-term obligations outstanding including \$11,030,070 in general obligation bonds, \$341,973 in Ohio Public Works Commission loans, and \$10,058,707 in Ohio Water Development Authority loans. Of this debt, \$18,998,961 will be paid from business-type activities.

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

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, compensated absences, capital leases, and a long-term obligation with AMP-Ohio. For further information regarding the City's debt, refer to Notes 17, 18, and 19 to the basic financial statements.

CURRENT ISSUES

As of December 31, 2008, the City has been in fiscal emergency just under four and one-half years, so the City's primary concern continues to be reestablishing positive fund balances and financial stability. While the City's financial statements reflect the tremendous progress the City has made, the City is still unable to project when it will emerge from fiscal emergency.

Despite the fact that the City's financial picture at the end of 2008 reflects ongoing improvement, sacrifices continue to be made throughout the City as the City continues with very restricted spending. In March 2008, the City negotiated new contracts with all three of the City's unions. Due to improvements in the City's financial status, the City was finally able to provide for salary increases as part of these agreements. All City employees are receiving a 3 percent salary increase for 2008, 2009, and 2010.

Another critical step toward the City's recovery was the approval by the voters, in May 2009, to make permanent the .5 percent income tax levy for police and fire operations originally approved for a five-year term in 2006. Without the continuation of this levy, the City's ability to sustain police and fire protection was in question. The levy generates approximately \$900,000 annually.

In December 2008, the City issued \$981,000 in bond anticipation notes. The proceeds from the notes were used to rollover the debt in the Storm Water Fund, in the amount of \$431,000 (after paying principal of \$144,000) and to pay the City's share (\$550,000) of the Urban Paving Project sponsored by the Ohio Department of Transportation (ODOT).

Other projects that the City has been able to complete in 2008 include a number of improvements at all of the City's parks including a skate park, shelter improvements, a walking path, and upgrading the tennis courts. The City has also finished refurbishing the water tower on Brandt Road and started preliminary work on the Dawsett Road water tower. The caustic tank project at the water treatment plant was completed during 2008. Work continued on the digester lid and bio-solids project at the wastewater treatment plant. New storm water lines were installed on Arlington Street and Maple Heights during 2008 to alleviate flooding being experienced by residents in those areas. Work also continued on the Railroad Street substation improvements (\$4.3 million project) which is expected to be complete by the end of 2009. Paving the airport runway and apron was also completed in 2008.

While 2008 offered many positives to the City's financial picture, the inability to determine an end to the fiscal emergency makes evident the significant challenges still ahead of the City. One major obstacle for the City to resolve is how to eliminate the deficit in the Street Maintenance fund. With a deficit fund balance of \$931,895 at the end of 2008, this is a very difficult issue for the City to resolve. The revenue sources in this fund are generally limited to motor vehicle license and gas tax monies received from the State. Additional motor vehicles license fees are levied by the City and those resources are also used for street improvement purposes. The City approved a \$10 increase in these fees (bringing the local levied amount to \$20); however, this will only generate approximately \$100,000 for the City annually. Collections began in 2008. The Street Maintenance Fund will continue to have a negative cash balance until additional revenue sources can be applied towards this deficit.

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

**CITY OF GALION
CRAWFORD COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008
UNAUDITED
(Continued)**

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 Mike Weiland, Finance Director, City of Galion, 115 Harding Way East, Galion, Ohio 44833.

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**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$4,238,963	\$12,778,553	\$17,017,516	\$0
Cash and Cash Equivalents with Fiscal Agent	81,744	345,866	427,610	0
Investments in Segregated Accounts	0	0	0	7,998,857
Accounts Receivable	62,895	3,162,848	3,225,743	0
Due from Other Governments	579,722	136,396	716,118	0
Municipal Income Taxes Receivable	1,084,613	0	1,084,613	0
Other Local Taxes Receivable	15,917	0	15,917	0
Excise Taxes Receivable	0	36,513	36,513	0
Internal Balances	422,219	(422,219)	0	0
Prepaid Items	28,014	20,490	48,504	0
Materials and Supplies Inventory	115,365	23,791	139,156	0
Property Taxes Receivable	503,674	0	503,674	0
Notes Receivable	719,946	0	719,946	0
Special Assessments Receivable	0	480,572	480,572	0
Nondepreciable Capital Assets	4,741,914	4,923,196	9,665,110	0
Depreciable Capital Assets, Net	10,919,026	18,869,998	29,789,024	0
Investment in Joint Venture	0	1,614,291	1,614,291	0
Total Assets	23,514,012	41,970,295	65,484,307	7,998,857
<u>Liabilities</u>				
Accrued Wages Payable	92,558	41,844	134,402	0
Accounts Payable	102,506	635,449	737,955	0
Contracts Payable	161,477	623,995	785,472	0
Due to Other Governments	805,999	99,818	905,817	0
Retainage Payable	32,518	87,025	119,543	0
Accrued Interest Payable	28,758	112,097	140,855	0
Notes Payable	1,105,000	431,000	1,536,000	0
Deferred Revenue	463,221	0	463,221	0
Claims Payable	3,638	0	3,638	0
Deposits Held and Due to Others	0	247,747	247,747	0
Long-Term Liabilities				
Due Within One Year	594,561	958,644	1,553,205	0
Due in More Than One Year	2,581,784	20,595,039	23,176,823	0
Total Liabilities	5,972,020	23,832,658	29,804,678	0
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt Restricted for	12,824,151	7,877,162	20,701,313	0
Capital Projects	91,172	0	91,172	0
Debt Service	140,721	0	140,721	0
Police and Fire	713,561	0	713,561	0
Revolving Loans	965,969	0	965,969	0
Other Purposes	435,869	0	435,869	0
Unrestricted	2,370,549	10,260,475	12,631,024	7,998,857
Total Net Assets	\$17,541,992	\$18,137,637	\$35,679,629	\$7,998,857

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,667,279	\$52,085	\$24,491	\$1,200
Fire	1,630,940	452,990	5,744	0
Public Health	422,506	166,522	37,725	0
Leisure Time Activities	260,455	4,222	7,006	16,765
Community Environment	257,184	0	248,817	21,814
Transportation	1,623,790	305,452	731,894	667,361
General Government	1,370,129	452,770	32,192	8,100
Interest and Fiscal Charges	187,743	0	0	0
Total Governmental Activities	7,420,026	1,434,041	1,087,869	715,240
<u>Business-Type Activities</u>				
Water	1,823,826	2,087,905	0	0
Sewer	1,814,356	1,805,448	0	414,444
Electric	9,389,184	10,827,810	0	8,300
Storm Water	312,291	399,890	0	0
Total Business-Type Activities	13,339,657	15,121,053	0	422,744
Total Primary Government	\$20,759,683	\$16,555,094	\$1,087,869	\$1,137,984
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$2,159,878	\$0	\$0	\$0
Total	\$22,919,561	\$16,555,094	\$1,087,869	\$1,137,984

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 Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation	
(\$1,589,503)	\$0	(\$1,589,503)	\$0	
(1,172,206)	0	(1,172,206)	0	
(218,259)	0	(218,259)	0	
(232,462)	0	(232,462)	0	
13,447	0	13,447	0	
80,917	0	80,917	0	
(877,067)	0	(877,067)	0	
(187,743)	0	(187,743)	0	
<u>(4,182,876)</u>	<u>0</u>	<u>(4,182,876)</u>	<u>0</u>	
0	264,079	264,079	0	
0	405,536	405,536	0	
0	1,446,926	1,446,926	0	
0	87,599	87,599	0	
<u>0</u>	<u>2,204,140</u>	<u>2,204,140</u>	<u>0</u>	
<u>(4,182,876)</u>	<u>2,204,140</u>	<u>(1,978,736)</u>	<u>0</u>	
0	0	0	(2,159,878)	
<u>(4,182,876)</u>	<u>2,204,140</u>	<u>(1,978,736)</u>	<u>(2,159,878)</u>	
395,565	0	395,565	0	
72,392	0	72,392	0	
2,199,139	0	2,199,139	0	
1,957,563	0	1,957,563	0	
241,356	0	241,356	0	
443,157	0	443,157	0	
617,052	0	617,052	0	
118,199	0	118,199	0	
167,584	58,445	226,029	301,741	
462,664	326,927	789,591	0	
<u>6,674,671</u>	<u>385,372</u>	<u>7,060,043</u>	<u>301,741</u>	
<u>(43,790)</u>	<u>43,790</u>	<u>0</u>	<u>0</u>	
<u>6,630,881</u>	<u>429,162</u>	<u>7,060,043</u>	<u>301,741</u>	
2,448,005	2,633,302	5,081,307	(1,858,137)	
15,093,987	15,504,335	30,598,322	9,856,994	
<u>\$17,541,992</u>	<u>\$18,137,637</u>	<u>\$35,679,629</u>	<u>\$7,998,857</u>	

**CITY OF GALION
BALANCE SHEET**

**GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	General	Police and Fire Levy	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,491,334	\$337,193	\$0	\$1,361,367	\$4,189,894
Accounts Receivable	62,645	0	0	250	62,895
Due from Other Governments	247,334	0	212,581	119,807	579,722
Municipal Income Taxes Receivable	542,307	486,808	0	55,498	1,084,613
Other Local Taxes Receivable	582	0	0	15,335	15,917
Interfund Receivable	1,279,352	0	0	75,495	1,354,847
<u>Restricted Assets</u>					
Equity in Pooled Cash and Cash Equivalents	6,521	0	0	0	6,521
Cash and Cash Equivalents with Fiscal Agent	81,744	0	0	0	81,744
Prepaid Items	18,804	0	5,122	4,088	28,014
Materials and Supplies Inventory	0	0	43,251	72,114	115,365
Property Taxes Receivable	425,780	0	0	77,894	503,674
Notes Receivable	0	0	0	719,946	719,946
Total Assets	\$5,156,403	\$824,001	\$260,954	\$2,501,794	\$8,743,152
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accrued Wages Payable	\$29,807	\$52,266	\$6,127	\$4,358	\$92,558
Accounts Payable	15,638	688	10,026	76,154	102,506
Contracts Payable	3,120	0	147,569	10,788	161,477
Due to Other Governments	79,842	57,486	11,018	657,653	805,999
Retainage Payable	0	0	23,938	8,580	32,518
Interfund Payable	0	0	815,431	102,843	918,274
Accrued Interest Payable	16,303	0	0	1,371	17,674
Notes Payable	555,000	0	0	550,000	1,105,000
Deferred Revenue	1,097,792	374,061	178,740	199,813	1,850,406
Total Liabilities	1,797,502	484,501	1,192,849	1,611,560	5,086,412
<u>Fund Balance</u>					
Reserved for Unclaimed Monies	6,521	0	0	0	6,521
Reserved for Future Debt Service	81,744	0	0	0	81,744
Reserved for Notes Receivable	0	0	0	650,224	650,224
Reserved for Encumbrances	9,424	0	160,237	112,014	281,675
<u>Unreserved, Reported in</u>					
General Fund	3,261,212	0	0	0	3,261,212
Special Revenue Funds (Deficit)	0	339,500	(1,092,132)	538,450	(214,182)
Debt Service Funds	0	0	0	75,984	75,984
Capital Projects Funds (Deficit)	0	0	0	(486,438)	(486,438)
Total Fund Balance (Deficit)	3,358,901	339,500	(931,895)	890,234	3,656,740
Total Liabilities and Fund Balance	\$5,156,403	\$824,001	\$260,954	\$2,501,794	\$8,743,152

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2008**

Total Governmental Fund Balance \$3,656,740

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 15,660,940

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

Accounts Receivable	43,866	
Due from Other Governments	471,617	
Municipal Income Taxes Receivable	831,249	
Property Taxes Receivable	40,453	
	<hr/>	
		1,387,185

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (14,354)

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

Accrued Interest Payable	(11,084)	
General Obligation Bonds Payable	(2,379,070)	
OPWC Loans Payable	(52,719)	
Police Pension Liability	(26,546)	
Fire Pension Liability	(100,621)	
Compensated Absences Payable	(617,389)	
	<hr/>	
		(3,187,429)

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

38,910

Net Assets of Governmental Activities

\$17,541,992

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Police and Fire Levy	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Revenues</u>					
Property Taxes	\$393,058	\$0	\$0	\$71,934	\$464,992
Municipal Income Taxes	2,144,059	1,907,994	0	235,847	4,287,900
Other Local Taxes	443,157	0	0	185,275	628,432
Charges for Services	1,040,756	0	4,094	120,305	1,165,155
Fees, Licenses, and Permits	133,325	0	0	0	133,325
Fines and Forfeitures	33,760	0	0	15,556	49,316
Intergovernmental	688,532	0	706,826	977,294	2,372,652
Interest	167,484	0	0	29,919	197,403
Other	22,533	3,359	44,113	404,674	474,679
Total Revenues	5,066,664	1,911,353	755,033	2,040,804	9,773,854
<u>Expenditures</u>					
Current:					
Security of Persons and Property					
Police	488,964	1,042,767	0	207,083	1,738,814
Fire	372,258	1,002,368	0	265,964	1,640,590
Public Health	400,329	0	0	19,092	419,421
Leisure Time Activities	0	0	0	393,626	393,626
Community Environment	0	0	0	257,184	257,184
Transportation	0	0	1,164,846	1,455,427	2,620,273
General Government	1,396,526	0	0	115,750	1,512,276
Debt Service:					
Principal Retirement	14,686	0	33,990	417,564	466,240
Interest and Fiscal Charges	38,137	0	5,780	145,968	189,885
Total Expenditures	2,710,900	2,045,135	1,204,616	3,277,658	9,238,309
Excess of Revenues Over (Under) Expenditures	2,355,764	(133,782)	(449,583)	(1,236,854)	535,545
<u>Other Financing Sources (Uses)</u>					
Sale of Capital Assets	1,200	0	0	0	1,200
OPWC Loans Issued	0	0	52,719	0	52,719
Transfers In	0	0	348,000	728,637	1,076,637
Transfers Out	(1,006,995)	0	0	(71,806)	(1,078,801)
Total Other Financing Sources (Uses)	(1,005,795)	0	400,719	656,831	51,755
Changes in Fund Balance	1,349,969	(133,782)	(48,864)	(580,023)	587,300
Fund Balance Beginning of Year	2,008,932	473,282	(883,031)	1,470,257	3,069,440
Fund Balance (Deficit) End of Year	\$3,358,901	\$339,500	(\$931,895)	\$890,234	\$3,656,740

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Changes in Fund Balance - Total Governmental Funds \$587,300

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 capital outlay exceeded depreciation in the current year.

Capital Outlay - Nondepreciable Capital Assets	1,888,265	
Capital Outlay - Depreciable Capital Assets	291,157	
Depreciation	<u>(941,318)</u>	
		1,238,104

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

Proceeds from Sale of Capital Assets	(1,200)	
Gain on Disposal of Capital Assets	<u>1,200</u>	
		0

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

Property Taxes	2,965	
Municipal Income Taxes	110,158	
Charges for Services	(11,529)	
Intergovernmental	7,877	
Licenses and Permits	<u>30,447</u>	
		139,918

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

General Obligation Bonds Payable	463,676	
Police Pension Liability	535	
Fire Pension Liability	<u>2,029</u>	
		466,240

OPWC loan proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (52,719)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. 2,142

Compensated absences expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (25,754)

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 92,774

Change in Net Asssets of Governmental Activities \$2,448,005

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$469,338	\$469,338	\$393,058	(\$76,280)
Municipal Income Taxes	1,817,234	1,817,234	2,126,081	308,847
Other Local Taxes	443,865	443,865	449,347	5,482
Charges for Services	1,145,839	1,145,839	1,023,911	(121,928)
Fees, Licenses, and Permits	24,000	24,000	133,325	109,325
Fines and Forfeitures	24,000	24,000	34,213	10,213
Intergovernmental	300,729	300,729	771,220	470,491
Interest	360,000	360,000	168,645	(191,355)
Other	0	0	13,651	13,651
Total Revenues	4,585,005	4,585,005	5,113,451	528,446
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	579,800	585,800	480,496	105,304
Fire	439,700	460,700	372,789	87,911
Public Health	459,200	469,200	398,027	71,173
General Government	1,590,636	1,705,775	1,387,363	318,412
Debt Service:				
Principal Retirement	14,700	14,700	107,686	(92,986)
Interest and Fiscal Charges	3,000	3,000	40,869	(37,869)
Total Expenditures	3,087,036	3,239,175	2,787,230	451,945
Excess of Revenues Over Expenditures	1,497,969	1,345,830	2,326,221	980,391
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	0	0	7,811	7,811
Sale of Capital Assets	0	0	1,200	1,200
Bonds Issued	50,000	50,000	0	(50,000)
Transfers Out	(962,874)	(1,129,634)	(1,006,995)	122,639
Total Other Financing Sources (Uses)	(912,874)	(1,079,634)	(997,984)	81,650
Changes in Fund Balance	585,095	266,196	1,328,237	1,062,041
Fund Balance Beginning of Year	2,012,464	2,012,464	2,012,464	0
Prior Year Encumbrances Appropriated	63,996	63,996	63,996	0
Fund Balance End of Year	\$2,661,555	\$2,342,656	\$3,404,697	\$1,062,041

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
POLICE AND FIRE LEVY SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	<u>\$1,799,325</u>	<u>\$1,799,325</u>	<u>\$1,892,211</u>	<u>\$92,886</u>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	995,750	1,063,750	1,029,841	33,909
Fire	<u>904,250</u>	<u>996,250</u>	<u>987,689</u>	<u>8,561</u>
Total Expenditures	<u>1,900,000</u>	<u>2,060,000</u>	<u>2,017,530</u>	<u>42,470</u>
Excess of Revenues Under Expenditures	(100,675)	(260,675)	(125,319)	135,356
<u>Other Financing Sources</u>				
Other Financing Sources	<u>0</u>	<u>0</u>	<u>3,359</u>	<u>3,359</u>
Changes in Fund Balance	(100,675)	(260,675)	(121,960)	138,715
Fund Balance Beginning of Year	<u>459,153</u>	<u>459,153</u>	<u>459,153</u>	<u>0</u>
Fund Balance End of Year	<u><u>\$358,478</u></u>	<u><u>\$198,478</u></u>	<u><u>\$337,193</u></u>	<u><u>\$138,715</u></u>

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
STREET MAINTENANCE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues</u>				
Charges for Services	\$0	\$0	\$4,094	\$4,094
Intergovernmental	427,850	839,896	737,627	(102,269)
Other	114,000	114,000	10,470	(103,530)
Total Revenues	541,850	953,896	752,191	(201,705)
<u>Expenditures</u>				
Current:				
Transportation	860,079	1,331,844	1,265,539	66,305
Debt Service:				
Principal Retirement	34,000	34,000	33,990	10
Interest and Fiscal Charges	5,800	5,800	5,780	20
Total Expenditures	899,879	1,371,644	1,305,309	66,335
Excess of Revenues Under Expenditures	(358,029)	(417,748)	(553,118)	(135,370)
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	33,726	33,726
OPWC Loans Issued	0	52,719	52,719	0
Transfers In	348,000	348,000	348,000	0
Total Other Financing Sources	348,000	400,719	434,445	33,726
Changes in Fund Balance	(10,029)	(17,029)	(118,673)	(101,644)
Fund Balance (Deficit) Beginning of Year	(1,000,292)	(1,000,292)	(1,000,292)	0
Prior Year Encumbrances Appropriated	25,579	25,579	25,579	0
Fund Balance (Deficit) End of Year	(\$984,742)	(\$991,742)	(\$1,093,386)	(\$101,644)

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

	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	\$1,655,554	\$1,703,221	\$8,011,527	\$1,160,504	\$12,530,806	\$42,548
Cash and Cash Equivalents with Fiscal Agent	0	0	345,866	0	345,866	0
Accounts Receivable	513,602	299,561	2,275,417	74,268	3,162,848	0
Due from Other Governments	0	136,396	0	0	136,396	0
Excise Taxes Receivable	0	0	36,513	0	36,513	0
Interfund Receivable	0	0	1,238	0	1,238	0
<u>Restricted Assets</u>						
Equity in Pooled Cash and Cash Equivalents	69,508	65,971	112,268	0	247,747	0
Prepaid Items	4,885	4,854	9,323	1,428	20,490	0
Materials and Supplies Inventory	21,894	1,897	0	0	23,791	0
Special Assessments Receivable	10,742	17,527	0	0	28,269	0
Total Current Assets	2,276,185	2,229,427	10,792,152	1,236,200	16,533,964	42,548
<u>Non-Current Assets</u>						
Special Assessments Receivable	171,875	280,428	0	0	452,303	0
Nondepreciable Capital Assets	866,667	3,269,800	786,729	0	4,923,196	0
Depreciable Capital Assets, Net	7,687,259	4,163,828	5,156,589	1,862,322	18,869,998	0
Investment in Joint Venture	0	0	1,614,291	0	1,614,291	0
Total Non-Current Assets	8,725,801	7,714,056	7,557,609	1,862,322	25,859,788	0
Total Assets	11,001,986	9,943,483	18,349,761	3,098,522	42,393,752	42,548
<u>Liabilities</u>						
<u>Current Liabilities</u>						
Accrued Wages Payable	11,044	13,372	17,082	346	41,844	0
Accounts Payable	30,820	17,719	584,105	2,805	635,449	0
Contracts Payable	3,264	562,239	33,139	25,353	623,995	0
Due to Other Governments	25,815	29,067	40,022	4,914	99,818	0
Retainage Payable	6,000	31,937	3,058	46,030	87,025	0
Compensated Absences Payable	30,147	21,783	26,673	463	79,066	0
Interfund Payable	110,248	120,606	185,325	21,632	437,811	0
Accrued Interest Payable	0	0	110,242	1,855	112,097	0
Notes Payable	0	0	0	431,000	431,000	0
Claims Payable	0	0	0	0	0	3,638
General Obligations Bonds Payable	0	0	420,000	0	420,000	0
OPWC Loans Payable	10,555	26,907	0	0	37,462	0
OWDA Loans Payable	196,371	74,728	0	0	271,099	0
Capital Leases Payable	0	0	0	29,208	29,208	0
AMP Ohio Payable	0	0	121,809	0	121,809	0
Total Current Liabilities	424,264	898,358	1,541,455	563,606	3,427,683	3,638
<u>Non-Current Liabilities</u>						
Deposits Held and Due to Others	69,508	65,971	112,268	0	247,747	0
General Obligations Bonds Payable	0	0	8,231,000	0	8,231,000	0
OPWC Loans Payable	144,163	107,629	0	0	251,792	0
OWDA Loans Payable	6,620,926	3,166,682	0	0	9,787,608	0
Capital Leases Payable	0	0	0	62,825	62,825	0
AMP Ohio Payable	0	0	1,830,967	0	1,830,967	0
Compensated Absences Payable	96,087	121,272	211,483	2,005	430,847	0
Total Non-Current Liabilities	6,930,684	3,461,554	10,385,718	64,830	20,842,786	0
Total Liabilities	7,354,948	4,359,912	11,927,173	628,436	24,270,469	3,638
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	1,581,911	4,057,682	898,280	1,339,289	7,877,162	0
Unrestricted	2,065,127	1,525,889	5,524,308	1,130,797	10,246,121	38,910
Total Net Assets	\$3,647,038	\$5,583,571	\$6,422,588	\$2,470,086	\$18,123,283	\$38,910

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

14,354

Net assets of business-type activities

\$18,137,637

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Operating Revenues</u>						
Charges for Services	\$2,087,905	\$1,805,448	\$10,827,810	\$399,890	\$15,121,053	\$254,055
Other	27,841	41,581	256,499	1,006	326,927	20,116
Total Operating Revenues	2,115,746	1,847,029	11,084,309	400,896	15,447,980	274,171
<u>Operating Expenses</u>						
Salaries	430,087	488,047	638,918	89,465	1,646,517	0
Benefits	285,727	318,450	384,795	57,294	1,046,266	0
Contractual Services	139,328	237,247	7,254,706	30,017	7,661,298	7,879
Materials and Supplies	290,636	319,468	104,487	32,971	747,562	0
Bad Debt	75,918	20,319	119,750	9,414	225,401	0
Claims	0	0	0	0	0	119,032
Depreciation	315,295	213,905	180,238	39,849	749,287	0
Other	110,248	120,606	151,761	21,632	404,247	0
Total Operating Expenses	1,647,239	1,718,042	8,834,655	280,642	12,480,578	126,911
Operating Income	468,507	128,987	2,249,654	120,254	2,967,402	147,260
<u>Non-Operating Revenues (Expenses)</u>						
Interest Revenue	0	0	58,445	0	58,445	0
Interest Expense	(192,932)	(112,115)	(462,891)	(32,739)	(800,677)	0
Gain on Disposal of Capital Assets	0	1,250	8,300	0	9,550	0
Loss from Joint Venture	0	0	(112,888)	0	(112,888)	0
Total Non-Operating Revenues (Expenses)	(192,932)	(110,865)	(509,034)	(32,739)	(845,570)	0
Income before Capital Contributions and Transfers	275,575	18,122	1,740,620	87,515	2,121,832	147,260
Capital Contributions	13,008	426,202	13,008	2,602	454,820	0
Transfers In	27,286	44,520	0	0	71,806	0
Transfers Out	(26,464)	(43,178)	0	0	(69,642)	0
Changes in Net Assets	289,405	445,666	1,753,628	90,117	2,578,816	147,260
Net Assets (Deficit) Beginning of Year	3,357,633	5,137,905	4,668,960	2,379,969		(108,350)
Net Assets End of Year	\$3,647,038	\$5,583,571	\$6,422,588	\$2,470,086		\$38,910

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

54,486

Change in net assets of business-type activities

\$2,633,302

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	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	\$1,806,689	\$1,751,118	\$10,431,544	\$370,847	\$14,360,198	\$0
Cash Received from						
Transactions with Other Funds	0	0	0	0	0	254,055
Cash Received from Deposits	32,368	30,208	58,195	0	120,771	0
Cash Received from Other Revenues	28,015	41,758	253,050	1,052	323,875	20,116
Cash Payments for Salaries	(403,722)	(458,094)	(586,599)	(96,069)	(1,544,484)	0
Cash Payments for Benefits	(256,418)	(278,007)	(343,828)	(54,103)	(932,356)	0
Cash Payments for Contractual Services	(132,572)	(223,554)	(7,406,684)	(26,302)	(7,789,112)	(12,315)
Cash Payments for Materials and Supplies	(327,381)	(519,977)	(104,273)	(42,718)	(994,349)	0
Cash Payments for Claims	0	0	0	0	0	(187,425)
Cash Payments for						
Transactions with Other Funds	(26,458)	(34,858)	(36,034)	(2,070)	(99,420)	0
Cash Payments for Other Expenses	(109,565)	(108,351)	(143,504)	(19,944)	(381,364)	0
Cash Payments for Deposits Refunded	(28,165)	(27,287)	(53,365)	0	(108,817)	0
Net Cash Provided by Operating Activities	582,791	172,956	2,068,502	130,693	2,954,942	74,431
<u>Cash Flows from Noncapital Financing Activities</u>						
Advances Out	0	0	0	0	0	(31,883)
Transfers Out	(15,594)	(25,443)	0	0	(41,037)	0
Net Cash Used for Noncapital Financing Activities	(15,594)	(25,443)	0	0	(41,037)	(31,883)
<u>Cash Flows from Capital and Related Financing Activities</u>						
Grants	0	486,888	0	0	486,888	0
Principal Paid on Bond Anticipation Notes	0	0	0	(575,000)	(575,000)	0
Principal Paid on General Obligation Bonds	0	0	(301,000)	0	(301,000)	0
Principal Paid on OPWC Loans	(10,555)	(26,907)	0	0	(37,462)	0
Principal Paid on OWDA Loans	(177,050)	(48,908)	0	0	(225,958)	0
Principal Paid on Capital Leases	0	0	0	(27,830)	(27,830)	0
Interest Paid on Bond Anticipation Notes	0	0	0	(25,731)	(25,731)	0
Interest Paid on General Obligation Bonds	0	0	(381,212)	0	(381,212)	0
Interest Paid on OWDA Loans	(179,748)	(90,604)	0	0	(270,352)	0
Interest Paid on Capital Leases	0	0	0	(5,933)	(5,933)	0
Bond Anticipation Notes Issued	0	0	0	431,000	431,000	0
OWDA Loans Issued	337,047	386,782	0	0	723,829	0
Acquisition of Capital Assets	(387,871)	(904,913)	(780,685)	(1,076,458)	(3,149,927)	0
Sale of Capital Assets	0	1,250	8,300	0	9,550	0
Net Cash Used for Capital and Related Financing Activities	(418,177)	(196,412)	(1,454,597)	(1,279,952)	(3,349,138)	0
<u>Cash Flows from Investing Activities</u>						
Interest	0	0	58,445	0	58,445	0
Net Increase (Decrease) in Cash and Cash Equivalents	149,020	(48,899)	672,350	(1,149,259)	(376,788)	42,548
Cash and Cash Equivalents Beginning of Year	1,576,042	1,818,091	7,797,311	2,309,763	13,501,207	0
Cash and Cash Equivalents End of Year	\$1,725,062	\$1,769,192	\$8,469,661	\$1,160,504	\$13,124,419	\$42,548

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008
(continued)**

	Business-Type Activities				Total Enterprise Funds	Governmental Activity
	Water	Sewer	Electric	Storm Water		Internal Service Fund
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>						
Operating Income	\$468,507	\$128,987	\$2,249,654	\$120,254	\$2,967,402	\$147,260
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>						
Allowance for Uncollectibles	75,918	20,319	119,750	9,414	225,401	0
Depreciation	315,295	213,905	180,238	39,849	749,287	0
Changes in Assets and Liabilities:						
Increase in Accounts Receivable	(281,089)	(54,121)	(398,701)	(29,043)	(762,954)	0
Decrease in Due from Other Governments	174	177	224	46	621	0
Decrease in Excise Taxes Receivable	0	0	6,287	0	6,287	0
Increase in Interfund Receivable	0	0	(1,238)	0	(1,238)	0
Decrease in Prepaid Items	855	736	2,253	195	4,039	0
(Increase) Decrease in Materials and Supplies Inventory	(2,394)	14,143	107	0	11,856	0
Increase in Special Assessments Receivable	(127)	(209)	0	0	(336)	0
Increase (Decrease) in Accrued Wages Payable	3,639	4,395	5,889	(531)	13,392	0
Increase (Decrease) in Accounts Payable	15,263	(1,182)	(21,293)	2,460	(4,752)	(4,436)
Decrease in Contracts Payable	(43,630)	(183,570)	(19,085)	(9,747)	(256,032)	0
Increase in Due to Other Governments	2,768	7,894	6,819	2,181	19,662	0
Decrease in Retainage Payable	0	(19,252)	0	0	(19,252)	0
Increase (Decrease) in Compensated Absences Payable	22,726	25,558	46,430	(6,073)	88,641	0
Increase in Interfund Payable	683	12,255	2,399	1,688	17,025	0
Decrease in AMP Ohio Payable	0	0	(116,061)	0	(116,061)	0
Increase in Deposits Held and Due to Others	4,203	2,921	4,830	0	11,954	0
Decrease in Claims Payable	0	0	0	0	0	(68,393)
Net Cash Provided by Operating Activities	<u>\$582,791</u>	<u>\$172,956</u>	<u>\$2,068,502</u>	<u>\$130,693</u>	<u>\$2,954,942</u>	<u>\$74,431</u>

Non-Cash Capital Transactions

In 2008, the General Fund constructed capital assets and donated them to the Water, Sewer, Electric, and Storm Water enterprise funds, in the amount of \$13,008, \$13,008, \$13,008, and \$2,602, respectively.

At December 31, 2008, the Sewer enterprise fund had a receivable for grants related to capital assets, in the amount of \$136,396.

See Accompanying Notes to the Basic Financial Statements

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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

Egbert M. Freese Foundation - The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2008, the City received \$391,396 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, an insurance pool, and a related organization. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1), the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), the Galion/Polk Township Community Improvement Corporation, the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan, and the Galion Public Library. These organizations are presented in Notes 22, 23, 24, and 25 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to provide resources for operating the police and fire departments.

Street Maintenance Fund - The Street Maintenance special revenue fund accounts for 92.5% of the state gasoline tax and motor vehicle registration fees designated for street maintenance and repair of streets within the City.

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

Proprietary Funds

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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 assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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 Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2008, but were levied to finance 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

F. Cash and Investments

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

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

During fiscal year 2008, the City invested in mutual funds. The mutual funds are reported at fair value, which is based on current share price.

Interest earnings are allocated to City funds according to State statutes, City charter, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2008 was \$167,484, which includes \$125,060 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.

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.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted assets represent certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

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

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

I. Inventory

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

J. Capital Assets

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

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

All capital assets 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.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	25 years	50-100 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 assets 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.

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.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for maintenance and repair of streets and highways, recreation, police and fire department activities, and airport facilities. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2008, the City did not have any net assets restricted by enabling legislation.

O. Fund Balance Reserves

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

P. Operating Revenues and Expenses

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

Q. Capital Contributions

Capital contributions arise from contributions of capital assets from other funds and other governments.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 - CHANGES IN ACCOUNTING PRINCIPLES

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" and Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments".

GASB Statement No. 49 establishes accounting and financial reporting requirements for pollution remediation obligations by requiring more timely and complete reporting of the obligations and by requiring all governments to account for pollution remediation obligations in the same manner. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 52 establishes consistent standards for reporting land and other real estate held as investments. It requires endowments to report land and other real estate investments at fair value, to report the changes in fair value as investment income, and to disclose the methods and significant assumptions used to determine fair value. The implementation of this statement did not result in any changes to the financial statements.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2008, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Major Fund	
Street Maintenance	\$931,895
Nonmajor Special Revenue Funds	
Permissive MVL	9,135
FAA Grant	1,188
CHIP Grant	48,538
Police Pension	11,537
Fire Pension	27,713
Nonmajor Debt Service Fund	
Cheshire Special Assessment	73,984
Nonmajor Capital Projects Fund	
Urban Paving Project	551,371

The deficit fund balances resulted from adjustments for accrued liabilities. In addition, the Street Maintenance and Permissive MVL special revenue funds had expenditures in excess of revenues for a number of previous years contributing to the current deficit. The Cheshire Special Assessment debt service fund also had a deficit fund balance at year end caused by expenditures exceeding revenues. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

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

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The 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 and Street Maintenance special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

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

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

Changes in Fund Balance			
	General	Police and Fire Levy	Street Maintenance
GAAP Basis	\$1,349,969	(\$133,782)	(\$48,864)
<u>Increases (Decreases) Due To</u>			
Revenue Accruals:			
Accrued 2007, Received in Cash 2008	673,744	96,964	64,725
Accrued 2008, Not Yet Received in Cash	(620,307)	(112,747)	(33,841)
Expenditure Accruals:			
Accrued 2007, Paid in Cash 2008	(128,366)	(82,835)	(24,401)
Accrued 2008, Not Yet Paid in Cash	144,710	110,440	198,678
Cash Accruals:			
Unrecorded Activity 2007	10,903	0	0
Unrecorded Activity 2008	(1,546)	0	0
Prepaid Items	5,387	0	992
Materials and Supplies Inventory	0	0	1,993
Note Principal Retirement	(93,000)	0	0
Encumbrances Outstanding at Year End (Budget Basis)	(13,257)	0	(277,955)
Budget Basis	\$1,328,237	(\$121,960)	(\$118,673)

NOTE 6 - DEPOSITS AND INVESTMENTS

The City follows State statutes regarding its deposit and investment activity. State statutes classify monies held by the City into three categories.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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
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.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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, 2008, the City's investments consisted of mutual funds, with a fair value of \$81,744 and an average maturity of 60 days. The mutual funds carry a credit rating of Aaa from Moody's. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that mutual funds in eligible securities be rated in the highest category at the time of purchase by at least one nationally recognized standard of rating service.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2008, 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 property taxes, notes receivable, special assessments, and the allowance for uncollectibles related to utility services. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$650,224, will not be received within one year. Special assessments, in the amount of \$452,303, will not be received within one year. There were no delinquent special assessments as of year end.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$651,380	\$380,101	\$2,788,746	\$96,741	\$3,916,968
Less Allowance for Uncollectibles	(137,778)	(80,540)	(513,329)	(22,473)	(754,120)
Net Accounts Receivable	<u>\$513,602</u>	<u>\$299,561</u>	<u>\$2,275,417</u>	<u>\$74,268</u>	<u>\$3,162,848</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 7 - RECEIVABLES (continued)

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 5 to 15 years.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$31,550
Personal Property Phase-Out	6,628
Local Government	77,348
Local Government Revenue Assistance	112,433
Beer and Liquor Permits	67
Cigarette Taxes	263
Estate Taxes	3,277
Fines and Forfeitures	1,402
Victims of Crime	10,769
Help Me Grow	2,100
Immunization Action Plan	1,029
Public Health Infrastructure	468
Total General Fund	247,334
Street Maintenance	
Gasoline Tax	175,164
Motor Vehicle License Tax	37,417
Total Street Maintenance	212,581
Total Major Funds	459,915
Nonmajor Funds	
Police Drug	
Crawford County	307
OVI Enforcement	
Fines and DUI Monies	141
State Highway	
Gasoline Tax	14,203
Motor Vehicle License Tax	3,034
Total State Highway	17,237
FAA	
FAA	22,569
CHIP	
CHIP	64,125
Police Pension	
Homestead and Rollback	2,884
Personal Property Phase-Out	603
Total Police Pension	3,487

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds (continued)	
Fire Pension	
Homestead and Rollback	\$2,884
Personal Property Phase-Out	603
Total Fire Pension	3,487
CDBG	
CDBG	8,454
Total Nonmajor Funds	119,807
Total Governmental Activities	\$579,722
Business-Type Activities	
Sewer	
Issue I	\$20,172
Stag	116,224
Total Business-Type Activities	\$136,396

NOTE 8 - MUNICIPAL INCOME TAXES

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

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

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2008 represent the collection of 2007 taxes. Real property taxes received in 2008 were levied after October 1, 2007, on the assessed values as of January 1, 2007, 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.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 9 - PROPERTY TAXES (continued)

Public utility property tax revenues received in 2008 represent the collection of 2007 taxes. Public utility real and tangible personal property taxes received in 2008 became a lien on December 31, 2006, were levied after October 1, 2007, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2008, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2008 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder has been deferred.

The full tax rate for all City operations for the year ended December 31, 2008, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$556,070
Residential	102,665,890
Commercial	23,597,300
Industrial	7,655,340
Public Utility Property	
Real	33,460
Personal	717,010
Tangible Personal Property	3,822,860
Total Assessed Value	\$139,047,930

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,466,462	\$19,354	\$0	\$3,485,816
Construction in Progress	318,427	1,868,911	(931,240)	1,256,098
Total Nondepreciable Capital Assets	3,784,889	1,888,265	(931,240)	4,741,914
Depreciable Capital Assets				
Buildings	935,478	42,417	0	977,895
Improvements Other Than Buildings	38,300	972,780	0	1,011,080
Streets	18,620,216	34,275	0	18,654,491
Bridges	1,236,330	0	0	1,236,330
Equipment	455,876	104,854	0	560,730
Vehicles	2,028,666	68,071	(32,274)	2,064,463
Total Depreciable Capital Assets	23,314,866	1,222,397	(32,274)	24,504,989
Less Accumulated Depreciation for				
Buildings	(334,217)	(25,038)	0	(359,255)
Improvements Other Than Buildings	(26,044)	(1,532)	0	(27,576)
Streets	(10,651,447)	(752,602)	0	(11,404,049)
Bridges	(474,816)	(24,727)	0	(499,543)
Equipment	(266,324)	(29,143)	0	(295,467)
Vehicles	(924,071)	(108,276)	32,274	(1,000,073)
Total Accumulated Depreciation	(12,676,919)	(941,318)	32,274	(13,585,963)
Total Depreciable Capital Assets, Net	10,637,947	281,079	0	10,919,026
Governmental Activities Capital Assets, Net	\$14,422,836	\$2,169,344	(\$931,240)	\$15,660,940

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$2,169,744	\$0	\$0	\$2,169,744
Construction in Progress	936,448	3,492,895	(1,675,891)	2,753,452
Total Nondepreciable Capital Assets	3,106,192	3,492,895	(1,675,891)	4,923,196
Depreciable Capital Assets				
Buildings	12,847,859	215,552	0	13,063,411
Improvements Other Than Buildings	6,478,200	0	0	6,478,200
Water, Sewer, Electric, and Storm Water Lines	8,336,227	1,167,754	(640)	9,503,341
Equipment	2,234,551	334,211	0	2,568,762
Vehicles	1,144,333	241,999	(137,670)	1,248,662
Total Depreciable Capital Assets	31,041,170	1,959,516	(138,310)	32,862,376

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
Business-Type Activities: (continued)				
Less Accumulated Depreciation for				
Buildings	(\$6,934,908)	(\$340,731)	\$0	(\$7,275,639)
Improvements Other Than Buildings Water, Sewer, Electric, and Storm Water Lines	(1,719,469)	(113,481)	0	(1,832,950)
Equipment	(2,719,253)	(158,621)	640	(2,877,234)
Vehicles	(1,219,635)	(75,914)	0	(1,295,549)
Total Accumulated Depreciation	<u>(788,136)</u>	<u>(60,540)</u>	<u>137,670</u>	<u>(711,006)</u>
Total Depreciable Capital Assets, Net	<u>(13,381,401)</u>	<u>(749,287)</u>	<u>138,310</u>	<u>(13,992,378)</u>
	<u>17,659,769</u>	<u>1,210,229</u>	<u>0</u>	<u>18,869,998</u>
Business-Type Activities Capital Assets, Net	<u>\$20,765,961</u>	<u>\$4,703,124</u>	<u>(\$1,675,891)</u>	<u>\$23,793,194</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$20,733
Security of Persons and Property - Fire	62,318
Public Health	2,331
Leisure Time Activities	39,821
Transportation	813,503
General Government	2,612
Total Depreciation Expense - Governmental Activities	<u>\$941,318</u>

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2008, the General Fund had an interfund receivable, in the amount of \$1,279,352; \$815,431 from the Street Maintenance special revenue fund and \$24,470 from other governmental funds to alleviate deficit cash balances, \$1,640 from other governmental funds for services provided, and \$110,248 from the Water enterprise fund, \$120,606 from the Sewer enterprise fund, \$185,325 from the Electric enterprise fund, and \$21,632 from the Storm Water enterprise fund for services provided to those funds.

At December 31, 2008, other governmental funds had an interfund receivable, in the amount of \$75,495 from other governmental funds to alleviate deficit cash balances.

At December 31, 2008, the Electric enterprise fund had an interfund receivable in the amount of \$1,238, from other governmental funds for services provided.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2008, the City contracted with Houston Casualty Insurance Company for the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$13,402,922	\$1,000
Flood/Earthquake	500,000	25,000
General Liability		
Per Occurrence	1,000,000	0
Aggregate	3,000,000	0
Employee Benefits Liability		
Each Employee Limit	1,000,000	1,000
Aggregate	3,000,000	1,000
Stop Gap Liability	1,000,000	0
Public Officials Liability	1,000,000	1,000
Law Enforcement Liability	1,000,000	5,000
Automobile Liability	1,000,000	1,000
Commercial Umbrella	5,000,000	10,000
Crime Coverage	250,000	500

There has been no significant reduction in insurance coverage from 2007, 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 2008 and 2007 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2008	\$72,031	\$119,032	\$187,425	\$3,638
2007	198,437	1,010,467	1,136,873	72,031

In prior years, the City was also self-insured for employee medical insurance. In 2008, the City obtained this insurance through a commercial insurance provider.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 12 - RISK MANAGEMENT (continued)

For 2008, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

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, 2008:

<u>Vendor</u>	<u>Contract Amount</u>	<u>Amount Paid as of 12/31/08</u>	<u>Outstanding Balance</u>
Bucyrus Road Materials	\$624,765	\$367,719	\$257,046
Crawford Construction	24,900	17,990	6,910
Kirk Brothers	150,000	143,936	6,064
Cedar Bay Construction, Inc.	319,000	270,037	48,963
Downing Construction	394,638	189,581	205,057
Virginia Transformers Corp.	299,700	275,724	23,976
Siemens Power Transmissions	109,858	0	109,858

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 that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs, and township police) and public safety divisions exist only within the traditional pension plan.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

A. Ohio Public Employees Retirement System (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained 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. For the year ended December 31, 2008, members in state and local classifications contributed 10 percent of covered payroll, public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14 percent of covered payroll; 7 percent was used to fund pension obligations with the remainder allocated to fund the postemployment health care plan. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 was \$382,437, 209,162, and \$219,761, respectively; 87 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$588 made by the City and \$420 made by the plan members.

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 stand-alone financial report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers and 24 percent for firefighters. Contribution rates are established by State statute. For 2008, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment health care plan. The City's required contribution for pension obligations for police and firefighters for the year ended December 31, 2008, was \$155,344 and \$212,068, for the year ended December 31, 2007, was \$78,980 and \$125,914, and for the year ended December 31, 2006, was \$68,812 and \$115,147. For 2008, 86 percent has been contributed for both police and firefighters. The full amount has been contributed for 2007 and 2006.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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 require, 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 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). State statute requires that public employers fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14 percent of covered payroll. 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 amount of the employer contributions which was allocated to fund postemployment health care was 7 percent for 2008.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits 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, 2008, 2007, and 2006 was \$185,707, \$137,771, and \$107,492, respectively; 87 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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 healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides healthcare benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium reimbursement, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit, or is a spouse or eligible dependent child of such person.

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

OPF issues a stand-alone financial report that may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - OPF's postemployment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OPF. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2008, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of section 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare 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. Active members do not make contributions to the OPEB Plan.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police and firefighters for the year ended December 31, 2008, was \$46,091 and \$52,531, for the year ended December 31, 2007, was \$41,813 and \$49,271, and for the year ended December 31, 2006, was \$45,386 and \$54,916. For 2008, 86 percent has been contributed for both police and firefighters. The full amount has been contributed for 2007 and 2006.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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, 2008, were as follows:

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
<u>Governmental Activities</u>					
<u>Revenue Anticipation Notes</u>					
General Fund					
2005 Local Government Fund	5.875%	\$648,000	\$0	\$93,000	\$555,000
<u>General Obligation Bond Anticipation Notes</u>					
Special Revenue Fund					
2008 Street Improvement	6.50	0	550,000	0	550,000
Total Governmental Activities		<u>\$648,000</u>	<u>\$550,000</u>	<u>\$93,000</u>	<u>\$1,105,000</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
Enterprise Fund					
2007 Storm System Improvement	4.50%	\$575,000	\$0	\$575,000	\$0
2008 Storm System Improvement	6.50	0	431,000	0	431,000
Total Business-Type Activities		<u>\$575,000</u>	<u>\$431,000</u>	<u>\$575,000</u>	<u>\$431,000</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 17 - NOTES PAYABLE (continued)

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 will be made on June 1, 2013.

The bond anticipation notes in the special revenue fund, in the original amount of \$550,000, were issued on December 17, 2008, to pay the cost of improving, in cooperation with ODOT, State Routes 19, 61, 97, and 598. The notes mature on December 16, 2009.

The bond anticipation notes in the enterprise fund, in the amount of \$431,000, were issued on December 17, 2008, to partially retire notes previously issued to pay the costs of improving the storm water system. The notes mature on December 16, 2009.

The following is a summary of the City's principal and interest requirements to retire the Local Government Fund notes.

<u>Year</u>	<u>Revenue Anticipation Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$98,000	\$32,606
2010	104,000	26,849
2011	111,000	20,739
2012	117,000	14,217
2013	125,000	7,344
	<u>\$555,000</u>	<u>\$101,755</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2008, was as follows:

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1990 Library						
(Original Amount \$800,000)	7.25-7.75%	\$210,000	\$0	\$65,000	\$145,000	\$70,000
2004 Various Purpose						
(Original Amount \$3,500,000)	5.00	2,450,000	0	350,000	2,100,000	350,000
2006 Street Equipment Acquisition						
(Original Amount \$169,980)	4.25	135,990	0	33,990	102,000	34,000
2007 Vehicle Acquisition						
(Original Amount \$62,295)	5.97	46,756	0	14,686	32,070	15,570
Total General Obligation Bonds		<u>2,842,746</u>	<u>0</u>	<u>463,676</u>	<u>2,379,070</u>	<u>469,570</u>
Other Long-Term Obligations						
OPWC Loans						
#CP02L	0.00	0	52,719	0	52,719	14,976
Police Pension Liability		27,081	0	535	26,546	558
Fire Pension Liability		102,650	0	2,029	100,621	2,116
Compensated Absences Payable		591,635	72,125	46,371	617,389	107,341
Total Other Long-Term Obligations		<u>721,366</u>	<u>124,844</u>	<u>48,935</u>	<u>797,275</u>	<u>124,991</u>
Total Governmental Activities		<u>\$3,564,112</u>	<u>\$124,844</u>	<u>\$512,611</u>	<u>\$3,176,345</u>	<u>\$594,561</u>

(continued)

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Due Within One Year
<u>Business-Type Activities</u>						
General Obligation Bonds						
2007 Electric Improvement (Original Amount \$8,952,000)	5.25%	\$8,952,000	\$0	\$301,000	\$8,651,000	\$420,000
Other Long-Term Obligations						
OPWC Loans						
Railroad Street Waterline (Original Amount \$71,104)	0.00	49,773	0	3,555	46,218	3,555
West End Waterline (Original Amount \$140,000)	0.00	115,500	0	7,000	108,500	7,000
Cherry Street Sewer (Original Amount \$541,829)	0.00	161,443	0	26,907	134,536	26,907
Total OPWC Loans		326,716	0	37,462	289,254	37,462
OWDA Loans						
#2735 Raw Water Line (Original Amount \$480,881)	2.00	298,189	0	18,667	279,522	19,041
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	3,368,792	0	107,763	3,261,029	109,929
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	880,915	0	37,111	843,804	38,602
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,643,467	19,232	33,175	1,629,524	34,509
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,187,440	0	23,694	1,163,746	24,644
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	2,138,027	0	42,659	2,095,368	44,374
#4732 WWTP Bio-Solids (Original Amount \$81,117)	3.20	81,117	367,550	0	448,667	0
#4873 Water Tank Rehabilitation (Original Amount \$337,047)	4.61	0	337,047	0	337,047	0
Total OWDA Loans		9,597,947	723,829	263,069	10,058,707	271,099
Capital Leases Payable		119,863	0	27,830	92,033	29,208
AMP Ohio Payable - JV 2		2,068,837	0	116,061	1,952,776	121,809
Compensated Absences Payable		421,272	91,717	3,076	509,913	79,066
Total Business-Type Activities		\$21,486,635	\$815,546	\$748,498	\$21,553,683	\$958,644

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

1990 Library General Obligation Bonds

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

2004 Various Purpose General Obligation Bonds

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

2006 Street Equipment Acquisition General Obligation Bonds

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

2007 Vehicle Acquisition General Obligation Bonds

On May 24, 2007, the City issued \$62,295 in unvoted general obligation bonds to pay the costs of acquiring three police cruisers. The bonds are being retired from the General Fund. The bonds will mature on December 1, 2010.

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, 2008, the City had unspent proceeds, in the amount of \$3,605,962.

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 is \$13,613,935. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$384,084 and \$184,032, respectively. Total net revenues for the Water and Sewer enterprise funds were \$783,802 and \$342,892, respectively.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

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.

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.

Capital Leases Payable

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

AMP Ohio Payable - JV2

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

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 \$2,629,909. Principal and interest paid for the current year and total net revenues were \$203,458 and \$2,429,892, respectively.

The City's legal debt margin was \$11,820,931 at December 31, 2008.

The street project funded by OPWC loans has not been completed. An amortization schedule for the repayment of the loans will not be available until the project is completed and, therefore, is not included in the following schedule.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

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

	Governmental Activities			
	General Obligation Bonds		Police and Fire Pension	
	Principal	Interest	Principal	Interest
2009	\$469,570	\$122,488	\$2,674	\$5,377
2010	475,500	97,188	2,789	5,262
2011	384,000	71,445	2,910	5,141
2012	350,000	52,644	3,034	5,017
2013	350,000	35,000	3,165	4,887
2014-2018	350,000	17,500	17,984	22,272
2019-2023	0	0	22,192	18,066
2024-2028	0	0	27,384	12,872
2029-2033	0	0	33,795	6,463
2034-2035	0	0	11,240	473
	\$2,379,070	\$396,265	\$127,167	\$85,830

The WWTP Bio-Solids and water tank rehabilitation 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
2009	\$420,000	\$446,000	\$37,462
2010	443,000	423,517	37,462
2011	466,000	399,801	37,462
2012	491,000	374,850	37,462
2013	517,000	348,561	37,463
2014-2018	3,034,000	1,296,278	52,778
2019-2023	3,280,000	400,890	45,665
2024	0	0	3,500
	\$8,651,000	\$3,689,897	\$289,254

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Year	OWDA Loans		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2009	\$271,099	\$297,020	\$121,809	\$97,351
2010	279,405	288,712	127,831	91,261
2011	287,988	280,128	134,674	84,550
2012	296,866	271,251	141,791	77,479
2013	306,044	262,072	149,182	70,036
2014-2018	1,679,312	1,178,858	868,539	227,097
2019-2023	1,911,336	879,986	408,950	29,359
2024-2028	1,854,058	579,147	0	0
2029-2033	1,821,156	275,343	0	0
2034-2035	565,729	28,425	0	0
	<u>\$9,272,993</u>	<u>\$4,340,942</u>	<u>\$1,952,776</u>	<u>\$677,133</u>

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into a capitalized lease for equipment. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Principal payments in 2008 were \$27,830 in the enterprise funds.

	Business-Type Activities
Depreciable Capital Assets	
Equipment	\$146,381
Less Accumulated Depreciation for Equipment	(19,518)
Total	<u>\$126,863</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2008.

Year	Business-Type Activities	
	Principal	Interest
2009	\$29,208	\$4,556
2010	30,654	3,110
2011	32,171	1,592
	<u>\$92,033</u>	<u>\$9,258</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 20 - INTERFUND TRANSFERS

During 2008, the General Fund made transfers to the Street Maintenance special revenue fund, in the amount of \$348,000, to subsidize operations of the fund and to other governmental funds, in the amount of \$658,995; \$577,556 to subsidize various programs in other funds and \$81,439 to move receipts as debt payments came due.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$27,286 and \$44,520, to move receipts as debt payments became due.

The Water enterprise fund made transfers to other governmental funds, in the amount of \$26,464 to move receipts as debt payments came due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$43,178 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 does not prepare financial statements. The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2008, the Foundation's investments consisted of the following:

	<u>Fair Value</u>
Equities	\$2,771,333
Fixed Income	3,877,909
Cash Equivalents	1,333,742
Other Assets	15,873
	<u>\$7,998,857</u>

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 22 - JOINT VENTURES

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

The City is a participant, with twenty other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$9,310 to the joint venture in 2008 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 \$31,180 at December 31, 2008. 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, 2008, the City met its debt coverage obligation.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

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. The City's net obligation for these bonds at December 31, 2008, was \$1,952,776 (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 \$1,583,111 at December 31, 2008. 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 - INSURANCE POOL

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

NOTE 25 - RELATED ORGANIZATION

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

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008
(Continued)**

NOTE 26 - 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, and April 2008.

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, 2008, the City was still in fiscal emergency and has not determined when this situation will be resolved.

For 2006, 2007, and 2008 the City was able to prepare a budget in which current year expenditures/expenses were within current year revenues; however, a number of funds continue to carry deficit fund balances/net assets due to carryover deficits.

NOTE 27 - 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, 2008, to December 31, 2008, 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 28 - SUBSEQUENT EVENTS

On May 5, 2009, the voters approved extending the .5 percent income tax for police and fire operations as a permanent tax.

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**CITY OF GALION
CRAWFORD COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2008**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grants/State's Programs (Downtown Grant)	A-T-04-124-1	14.228	\$44,639
Community Development Block Grants/State's Programs (Revolving Loan)	A-E-05-124-1	14.228	12,465
Community Development Block Grants/State's Programs (Small City Community)	A-F-07-124-1	14.228	54,000
Total Community Development Block Grants/State's Programs			<u>111,104</u>
HOME Investment Partnerships Program	A-C-07-124-1	14.239	11,720
HOME Investment Partnerships Program	A-C-07-124-2	14.239	176,737
Total HOME Investment Partnerships Program			<u>188,457</u>
Total U.S. Department of Housing and Urban Development			<u>299,561</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<i>Passed Through Ohio Emergency Management Agency</i>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-1720-DR-033-29162	97.036	7,874
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-1720-EM-033-29162	97.036	9,591
Total U.S. Department of Homeland Security			<u>17,465</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed Through Ohio Attorney General</i>			
Crime Victim Assistance	2008VAGENE469	16.575	11,639
Crime Victim Assistance	2009VAGENE469	16.575	3,588
Total U.S. Department of Justice			<u>15,227</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
<i>Passed Through Ohio Environmental Protection Agency</i>			
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	(STAG) XP-9657001-0	66.610	92,027
Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator	(STAG) XP-00E56201	66.610	130,285
Total U.S. Environmental Protection Agency			<u>222,312</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Airport Improvement Program (Airport Study)	N/A	20.106	16,851
Airport Improvement Program	N/A	20.106	594,086
Total U.S. Department of Transportation			<u>610,937</u>
Total			<u><u>\$1,165,502</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF GALION
CRAWFORD COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2008**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money, administrative fees, and interest subsidies (if applicable) are recorded as disbursements on the accompanying Federal Awards Expenditures Schedule (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans; and therefore, are reported as federal expenditures in the year of disbursement. Prior year outstanding loan balances are reported in the schedule below.

These loans are collateralized by mortgages on the property.

Activity in the CDBG revolving loan fund during 2008 is as follows:

Beginning loans receivable balance as of January 1, 2008	\$783,933
Loans made	0
Loan principal repaid on loans issued prior to 2008	<u>(63,987)</u>
Ending loans receivable balance as of December 31, 2008	719,946
Cash balance on hand in the revolving loan fund as of December 31, 2008	246,221
Interest subsidies and administrative costs expended during 2008	<u>12,465</u>
Total value of RLF portion of the CDBG 14.228 program	978,632
Other grants administered through the 14.228 program	<u>98,639</u>
Total CDBG 14.228 program	<u>\$1,077,271</u>

NOTE C - MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, 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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 31, 2009, 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 §118.05(G), the Auditor of State served as the City's financial supervisor. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the City because the Auditor of State may assume broad management powers, duties, and functions under Ohio Revised Code §118.04. Furthermore, we noted the financial statements of the Freese Foundation Component Unit, the City's discretely presented component unit, have not been audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above as finding number 2008-001 is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated July 31, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-002.

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



Mary Taylor, CPA
Auditor of State

July 31, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

Compliance

We have audited the compliance of the City of Galion, Crawford County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended December 31, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Galion, Crawford County, Ohio, complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 31, 2009

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Qualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	20.106 Airport Improvement Grants
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008
(Continued)**

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

Finding Number	2008-001
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**Significant Deficiency / Material Non-compliance / Material Weakness
Reporting Entity**

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

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

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

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

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

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

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008
(Continued)

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

Finding Number	2008-002
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**Material Non-compliance
Certification of Expenditures**

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

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

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

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

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

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

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

Finding Number	2008-002 (Continued)
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**Material Non-compliance
Certification of Expenditures**

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

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

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

3. FINDINGS FOR FEDERAL AWARDS

None.

**CITY OF GALION
CRAWFORD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Significant Deficiency / Material Non-Compliance / Material Weakness Reporting Entity	No	Not corrected – comment is being repeated as finding 2008-001.
2007-002	Significant Deficiency / Material Non-Compliance / Material Weakness Sewer Billings	Yes	
2007-003	Significant Deficiency Self Insurance Activity	Yes	
2007-004	Significant Deficiency / Material Non-Compliance Federal Awards Expenditures Schedule	Yes	



Mary Taylor, CPA
Auditor of State

**CITY OF GALION
CRAWFORD COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2009**