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Certified Public Accountants, A.C.

**CITY OF GALION  
CRAWFORD COUNTY  
Regular Audit  
For the Year Ended December 31, 2015**

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- Association of Certified Anti - Money Laundering Specialists •





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Galion, Crawford County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

November 8, 2016

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**City of Galion  
Crawford County**

Table of Contents

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	16
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to Statement of Activities .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – Police and Fire Levy Special Revenue Fund .....	23
Statement of Fund Net Position – Proprietary Funds.....	24
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	28
Statement of Cash Flows – Proprietary Funds.....	30
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	34
Notes to the Basic Financial Statements .....	35
Required Supplementary Information	
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Public Employees Retirement System.....	83
Ohio Police and Fire Pension.....	84
Schedule of the City's Contributions - Ohio Public Employees Retirement System.....	85
Ohio Police and Fire Pension.....	86
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	88

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## INDEPENDENT AUDITOR'S REPORT

September 15, 2016

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

To the Members of Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

...***"bringing more to the table"***

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***Auditor's Responsibility (Continued)***

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio, as of December 31, 2015, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Police and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 25, on August 9, 2004, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor. We did not modify our opinion regarding this matter.

As discussed in Note 3 to the financial statements, during the year ended December 31, 2015, the City adopted Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

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



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
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, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2015 are as follows:

In total, the City's net position decreased 1 percent from the prior year, not a significant change. Governmental activities increased less than 2 percent and business-type activities decreased approximately 4 percent.

General revenues made up 72 percent of the total revenues for governmental activities in 2015, of which, 50 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2015 and 2014.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<u>Assets</u>						
Current and Other Assets	\$10,543,329	\$10,905,275	\$19,873,534	\$22,305,389	\$30,416,863	\$33,210,664
Capital Assets, Net	18,571,101	17,240,426	28,929,099	28,138,095	47,500,200	45,378,521
Total Assets	<u>29,114,430</u>	<u>28,145,701</u>	<u>48,802,633</u>	<u>50,443,484</u>	<u>77,917,063</u>	<u>78,589,185</u>
<u>Deferred Outflows of Resources</u>						
Pension	855,547	554,136	293,835	196,958	1,149,382	751,094
<u>Liabilities</u>						
Current and Other Liabilities	384,488	578,690	1,858,609	1,531,739	2,243,097	2,110,429
Long-Term Liabilities						
Pension	6,263,207	5,931,867	1,614,618	1,578,149	7,877,825	7,510,016
Other Amounts	1,870,060	1,106,048	19,582,832	20,489,359	21,452,892	21,595,407
Total Liabilities	<u>8,517,755</u>	<u>7,616,605</u>	<u>23,056,059</u>	<u>23,599,247</u>	<u>31,573,814</u>	<u>31,215,852</u>
<u>Deferred Inflows of Resources</u>						
Pension	20,541	0	28,365	0	48,906	0
Other Amounts	359,921	360,102	0	0	359,921	360,102
Total Deferred Inflows of Resources	<u>380,462</u>	<u>360,102</u>	<u>28,365</u>	<u>0</u>	<u>408,827</u>	<u>360,102</u>
<u>Net Position</u>						
Net Investment in Capital Assets	17,480,211	16,883,081	11,750,735	12,270,606	29,230,946	29,153,687
Restricted	3,318,239	2,694,812	0	0	3,318,239	2,694,812
Unrestricted	273,310	1,145,237	14,261,309	14,770,589	14,534,619	15,915,826
Total Net Position	<u>\$21,071,760</u>	<u>\$20,723,130</u>	<u>\$26,012,044</u>	<u>\$27,041,195</u>	<u>\$47,083,804</u>	<u>\$47,764,325</u>

During 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, end users of these financial statements will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the City's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of the City. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 68, the City is reporting a net pension liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2014, from \$54,523,247 to \$47,764,325.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

As noted earlier, there was very little change in net position for governmental activities (increased less than 2 percent). The above table reflects the only change of significance is the increase in long-term liabilities. During 2015, the City issued bond anticipation notes to acquire vehicles.

For business-type activities, the most significant changes are reflected in the decrease in current and other assets consisting primarily of a decrease in cash and cash equivalents used to acquire capital assets and make debt payments (note the increase in net capital assets and the decrease in long-term liabilities).

Table 2 reflects the change in net position for 2015 and 2014.

Table 2  
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<u>Revenues</u>						
<u>Program Revenues</u>						
Charges for Services	\$1,357,309	\$1,446,436	\$15,918,824	\$16,376,782	\$17,276,133	\$17,823,218
Operating Grants, Contributions, and Interest	648,640	577,630	0	0	648,640	577,630
Capital Grants and Contributions	545,844	2,639,585	0	0	545,844	2,639,585
<b>Total Program Revenues</b>	<b>2,551,793</b>	<b>4,663,651</b>	<b>15,918,824</b>	<b>16,376,782</b>	<b>18,470,617</b>	<b>21,040,433</b>
<u>General Revenues</u>						
Property Taxes Levied for General Purposes	302,657	303,505	0	0	302,657	303,505
Property Taxes Levied for Police and Fire Pension	55,184	55,332	0	0	55,184	55,332
Municipal Income Taxes Levied for General Purposes	2,341,507	2,379,945	0	0	2,341,507	2,379,945
Municipal Income Taxes Levied for Police and Fire	2,084,230	2,118,787	0	0	2,084,230	2,118,787
Municipal Income Taxes Levied for Recreation	257,273	261,161	0	0	257,273	261,161
Other Local Taxes	512,444	435,809	0	0	512,444	435,809
Grants and Entitlements not Restricted to Specific Programs	239,828	227,020	0	0	239,828	227,020
Franchise Taxes	116,876	118,032	0	0	116,876	118,032
Interest	19,445	2,242	2,283	288	21,728	2,530
Other	795,383	1,160,358	181,372	191,514	976,755	1,351,872
<b>Total General Revenues</b>	<b>6,724,827</b>	<b>7,062,191</b>	<b>183,655</b>	<b>191,802</b>	<b>6,908,482</b>	<b>7,253,993</b>
<b>Total Revenues</b>	<b>9,276,620</b>	<b>11,725,842</b>	<b>16,102,479</b>	<b>16,568,584</b>	<b>25,379,099</b>	<b>28,294,426</b>

(continued)

**CITY OF GALION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2015**  
**Unaudited**

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<u>Program Expenses</u>						
Security of Persons and Property						
Police	\$2,034,084	\$1,979,840	\$0	\$0	\$2,034,084	\$1,979,840
Fire	2,068,330	2,023,986	0	0	2,068,330	2,023,986
Public Health	531,235	499,489	0	0	531,235	499,489
Leisure Time Activities	524,838	283,347	0	0	524,838	283,347
Community Environment	33,212	30,477	0	0	33,212	30,477
Transportation	1,852,413	1,920,069	0	0	1,852,413	1,920,069
General Government	1,428,325	1,914,938	0	0	1,428,325	1,914,938
Interest and Fiscal Charges	17,540	31,525	0	0	17,540	31,525
Water	0	0	1,828,670	1,933,456	1,828,670	1,933,456
Sewer	0	0	2,181,906	2,144,286	2,181,906	2,144,286
Electric	0	0	13,008,586	12,262,113	13,008,586	12,262,113
Storm Water	0	0	550,481	410,626	550,481	410,626
Total Expenses	<u>8,489,977</u>	<u>8,683,671</u>	<u>17,569,643</u>	<u>16,750,481</u>	<u>26,059,620</u>	<u>25,434,152</u>
Increase (Decrease) in Net Position Before Transfers	786,643	3,042,171	(1,467,164)	(181,897)	(680,521)	2,860,274
Transfers	<u>(438,013)</u>	<u>(260,678)</u>	<u>438,013</u>	<u>260,678</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	348,630	2,781,493	(1,029,151)	78,781	(680,521)	2,860,274
Net Position Beginning of Year	<u>20,723,130</u>	n/a	<u>27,041,195</u>	n/a	<u>47,764,325</u>	n/a
Net Position End of Year	<u>\$21,071,760</u>	<u>\$20,723,130</u>	<u>\$26,012,044</u>	<u>\$27,041,195</u>	<u>\$47,083,804</u>	<u>\$47,764,325</u>

The information necessary to restate the 2014 beginning balance and the 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$751,094 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, 2015 statements report pension expense of \$799,725. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed.

Total 2015 Program Expenses under GASB Statement No. 68	\$26,059,620
Pension Expense under GASB Statement No. 68	(799,725)
2015 Contractually Required Contribution	781,298
Adjusted 2015 Program Expenses	<u>26,041,193</u>
Total 2014 Program Expenses under GASB Statement No. 27	(25,434,152)
Increase in Program Expenses not Related to Pension	<u>\$607,041</u>

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

The above table reflects the revenues and expenses for operating the City for the past two years. For governmental activities, there was a 21 percent decrease in total revenues. The most significant change for program revenues was the decrease in capital grants and contributions. In the prior year, the City received grant resources from the Ohio Department of Transportation for bridge replacement and street improvements on Portland Way North. The decrease in general revenues was primarily due to a decrease in reimbursements (other revenue).

Governmental activities expenses were generally similar to the prior year with a modest 2 percent decrease overall. Note that police and fire operations account for 48 percent of the City's total expenses and the street department operations account for another 22 percent of total expenses. These three departments, along with the basic costs of city operations (administration, receipt collections, paying bills, etc.), account for 87 percent of all of the City's governmental expenses.

As is to be expected, 99 percent of the revenues for business-type activities are received through charges for services provided to the users of the systems. Charges for services revenue decreased slightly from the prior year. These charges are based on user demand for water and electric; sewer charges are based on water consumption.

By far, the electric distribution system is the City's largest utility as demonstrated by the costs to operate the system. Expenses increased largely due to materials and supplies purchases (primarily non-capitalized costs associated with the distribution system).

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Security of Persons and Property				
Police	\$2,034,084	\$1,979,840	\$1,995,481	\$1,952,858
Fire	2,068,330	2,023,986	1,437,000	1,398,822
Public Health	531,235	499,489	287,093	254,191
Leisure Time Activities	524,838	283,347	517,698	276,672
Community Environment	33,212	30,477	29,168	26,795
Transportation	1,852,413	1,920,069	589,034	(1,513,255)
General Government	1,428,325	1,914,938	1,068,170	1,592,412
Interest and Fiscal Charges	17,540	31,525	17,540	31,525
Total Expenses	<u>\$8,489,977</u>	<u>\$8,683,671</u>	<u>\$5,941,184</u>	<u>\$4,020,020</u>



**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

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 25 percent of the costs of providing fire services. These charges are for local ambulance services as well as the amount charged to Polk Township for fire/ambulance services. Charges for services and operating grants provide for 46 percent of public health costs. Charges for services and various grants and contributions provide for 68 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes.

**GOVERNMENTAL FUNDS FINANCIAL ANALYSIS**

The City's major governmental funds are the General Fund and the Police and Fire Levy special revenue fund. The General Fund experienced a 12 percent decrease in fund balance in 2015. Revenues decreased over 6 percent (primarily miscellaneous revenue sources) and expenditures increased 20 percent. The most significant increase was due to the purchase of a fire truck.

Fund balance decreased 64 percent in the Police and Fire Levy Fund. The City is attempting to utilize the majority of these resources annually to fully use the voted levy proceeds for the intended purpose and to reduce the General Fund's contribution towards these services.

**BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS**

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund net position, the Water and Storm Water funds had an operating income and the Sewer and Electric funds had an operating loss for 2015.

The change in net position for the Water Fund was not significant.

Net position decreased in the Sewer Fund. Revenues decreased while expenses remained similar to the prior year.

Net position decreased \$1.1 million in the Electric Fund. Revenues were similar to the prior year; however, expenses increased over \$746,000 primarily due to an increase in materials and supplies expenses (primarily non-capitalized assets) and a loss on the disposal of capital assets.

The increase in net position in the Storm Water Fund was largely the result of capital contributions from other funds.

**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.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
Unaudited

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 and changes from the final budget to actual revenues were not significant. For expenditures, the change from the original budget to the final budget was not significant. Actual expenditures were 10 percent less than budgeted due to budgeting conservatively.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2015, was \$18,571,101 and \$28,929,099, respectively (net of accumulated depreciation). Significant additions for governmental activities included street improvements, new vehicles for the police, fire, and street departments, and the construction of a splash park. The primary additions for business-type activities consisted of water and storm line replacements and a utility truck, along with continued improvements at the electric distribution system. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2015, the City had bond anticipation notes payable from governmental and business-type activities, in the amount of \$760,000 and \$39,000, respectively. New bond anticipation notes were issued for the purchase of a fire truck, two street vehicles, and a utility truck. The City also had a number of long-term obligations outstanding including \$6,694,000 in general obligation bonds, \$954,112 in Ohio Public Works Commission loans, and \$10,368,431 in Ohio Water Development Authority loans. Of this debt, \$17,925,615 will be paid from business-type activities.

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

**CURRENT ISSUES**

In 2015, the City began the reconstruction project on Portland Way South. This project involved the replacement of roadway and water/storm water lines. The project was completed in 2016. Additional street paving projects included N. Columbus Street, W. Church Street, and Buehler Street.

The City began construction of a new splash park at the City's East Park to include a number of water features. The new splash park opened in July 2016.

Phases IV and V of the electric system upgrade continued throughout 2015 and into 2016. The project is designed to provide more efficient power distribution. In addition, the first phase of the Southeast Storm Water project was completed. This project will provide improved storm water drainage in the area south of Harding Way East and to improve storm water drainage to a large portion of the eastside of the City, the City completed the Shumaker Ditch project in a joint effort with Crawford County.

**REQUEST FOR INFORMATION**

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

City of Galion  
Statement of Net Position  
December 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$7,812,095	\$16,128,453	\$23,940,548	\$0
Investments in Segregated Accounts	0	0	0	9,470,427
Accounts Receivable	273,072	2,981,639	3,254,711	0
Due from Other Governments	369,250	522	369,772	0
Municipal Income Taxes Receivable	1,152,191	0	1,152,191	0
Other Local Taxes Receivable	15,045	0	15,045	0
Excise Taxes Receivable	0	34,416	34,416	0
Internal Balances	323,748	(323,748)	0	0
Prepaid Items	24,330	15,179	39,509	0
Materials and Supplies Inventory	84,697	19,005	103,702	0
Property Taxes Receivable	414,519	0	414,519	0
Notes Receivable	74,382	0	74,382	0
Special Assessments Receivable	0	282,690	282,690	0
Nondepreciable Capital Assets	3,977,489	6,130,221	10,107,710	0
Depreciable Capital Assets, Net	14,593,612	22,798,878	37,392,490	0
Investment in Joint Venture	0	735,378	735,378	0
<b>Total Assets</b>	<b>29,114,430</b>	<b>48,802,633</b>	<b>77,917,063</b>	<b>9,470,427</b>
<u>Deferred Outflows of Resources</u>				
Pension	855,547	293,835	1,149,382	0
<u>Liabilities</u>				
Accrued Wages Payable	48,883	25,493	74,376	0
Accounts Payable	17,359	880,489	897,848	0
Contracts Payable	6,529	232,468	238,997	0
Due to Other Governments	165,527	68,516	234,043	0
Retainage Payable	45,427	274,182	319,609	0
Accrued Interest Payable	11,004	59,757	70,761	0
Notes Payable	83,000	39,000	122,000	0
Claims Payable	6,759	0	6,759	0
Deposits Held and Due to Others	0	278,704	278,704	0
Long-Term Liabilities				
Due Within One Year	976,055	1,755,995	2,732,050	0
Due in More Than One Year				
Net Pension Liability	6,263,207	1,614,618	7,877,825	0
Other Amounts Due in More Than One Year	894,005	17,826,837	18,720,842	0
<b>Total Liabilities</b>	<b>8,517,755</b>	<b>23,056,059</b>	<b>31,573,814</b>	<b>0</b>
<u>Deferred Inflows of Resources</u>				
Property Taxes	359,921	0	359,921	0
Pension	20,541	28,365	48,906	0
<b>Total Deferred Inflows of Resources</b>	<b>380,462</b>	<b>28,365</b>	<b>408,827</b>	<b>0</b>
<u>Net Position</u>				
Net Investment in Capital Assets	17,480,211	11,750,735	29,230,946	0
Restricted for				
Capital Projects	666,873	0	666,873	0
Police and Fire	676,123	0	676,123	0
Recreation	258,679	0	258,679	0
Revolving Loans	1,062,509	0	1,062,509	0
Street Construction and Maintenance	316,639	0	316,639	0
Other Purposes	337,416	0	337,416	0
Unrestricted	273,310	14,261,309	14,534,619	9,470,427
<b>Total Net Position</b>	<b>\$21,071,760</b>	<b>\$26,012,044</b>	<b>\$47,083,804</b>	<b>\$9,470,427</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Activities  
For the Year Ended December 31, 2015

	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	\$2,034,084	\$32,699	\$5,904	\$0
Fire	2,068,330	511,176	120,154	0
Public Health	531,235	208,992	35,150	0
Leisure Time Activities	524,838	6,885	255	0
Community Environment	33,212	0	4,044	0
Transportation	1,852,413	255,138	465,397	545,844
General Government	1,428,325	342,419	17,736	0
Interest and Fiscal Charges	17,540	0	0	0
Total Governmental Activities	8,489,977	1,357,309	648,640	545,844
<u>Business-Type Activities</u>				
Water	1,828,670	1,827,778	0	0
Sewer	2,181,906	1,682,643	0	0
Electric	13,008,586	11,720,525	0	0
Storm Water	550,481	687,878	0	0
Total Business-Type Activities	17,569,643	15,918,824	0	0
Total Primary Government	\$26,059,620	\$17,276,133	\$648,640	\$545,844
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$1,334,199	\$0	\$0	\$0
Total	\$27,393,819	\$17,276,133	\$648,640	\$545,844

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year - Restated (Note 3)

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$1,995,481)	\$0	(\$1,995,481)	\$0
(1,437,000)	0	(1,437,000)	0
(287,093)	0	(287,093)	0
(517,698)	0	(517,698)	0
(29,168)	0	(29,168)	0
(586,034)	0	(586,034)	0
(1,068,170)	0	(1,068,170)	0
(17,540)	0	(17,540)	0
<u>(5,938,184)</u>	<u>0</u>	<u>(5,938,184)</u>	<u>0</u>
0	(892)	(892)	0
0	(499,263)	(499,263)	0
0	(1,288,061)	(1,288,061)	0
0	137,397	137,397	0
<u>0</u>	<u>(1,650,819)</u>	<u>(1,650,819)</u>	<u>0</u>
<u>(5,938,184)</u>	<u>(1,650,819)</u>	<u>(7,589,003)</u>	<u>0</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,334,199)</u>
<u>(5,938,184)</u>	<u>(1,650,819)</u>	<u>(7,589,003)</u>	<u>(1,334,199)</u>
302,657	0	302,657	0
55,184	0	55,184	0
2,341,507	0	2,341,507	0
2,084,230	0	2,084,230	0
257,273	0	257,273	0
512,444	0	512,444	0
239,828	0	239,828	0
116,876	0	116,876	0
19,445	2,283	21,728	727,045
795,383	181,372	976,755	0
<u>6,724,827</u>	<u>183,655</u>	<u>6,908,482</u>	<u>727,045</u>
<u>(438,013)</u>	<u>438,013</u>	<u>0</u>	<u>0</u>
<u>6,286,814</u>	<u>621,668</u>	<u>6,908,482</u>	<u>727,045</u>
348,630	(1,029,151)	(680,521)	(607,154)
<u>20,723,130</u>	<u>27,041,195</u>	<u>47,764,325</u>	<u>10,077,581</u>
<u>\$21,071,760</u>	<u>\$26,012,044</u>	<u>\$47,083,804</u>	<u>\$9,470,427</u>

City of Galion  
Balance Sheet  
Governmental Funds  
December 31, 2015

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,254,758	\$213,209	\$2,300,230	\$7,768,197
Accounts Receivable	273,072	0	0	273,072
Due from Other Governments	160,048	395	208,807	369,250
Municipal Income Taxes Receivable	576,096	516,908	59,187	1,152,191
Other Local Taxes Receivable	335	0	14,710	15,045
Interfund Receivable	417,521	0	0	417,521
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	16,004	0	0	16,004
Prepaid Items	17,799	0	6,531	24,330
Materials and Supplies Inventory	0	0	84,697	84,697
Property Taxes Receivable	350,571	0	63,948	414,519
Notes Receivable	0	0	74,382	74,382
<b>Total Assets</b>	<b>\$7,066,204</b>	<b>\$730,512</b>	<b>\$2,812,492</b>	<b>\$10,609,208</b>
<u>Liabilities</u>				
Accrued Wages Payable	\$22,560	\$22,072	\$4,251	\$48,883
Accounts Payable	11,180	0	6,179	17,359
Contracts Payable	0	0	6,529	6,529
Due to Other Governments	70,424	32,317	62,786	165,527
Retainage Payable	0	0	45,427	45,427
Accrued Interest Payable	467	0	87	554
Notes Payable	70,000	0	13,000	83,000
Interfund Payable	0	0	85,994	85,994
<b>Total Liabilities</b>	<b>174,631</b>	<b>54,389</b>	<b>224,253</b>	<b>453,273</b>
<u>Deferred Inflows of Resources</u>				
Property Taxes	304,393	0	55,528	359,921
Unavailable Revenue	815,530	376,479	199,173	1,391,182
<b>Total Deferred Inflows of Resources</b>	<b>1,119,923</b>	<b>376,479</b>	<b>254,701</b>	<b>1,751,103</b>
<u>Fund Balance</u>				
Nondspendable	33,803	0	91,228	125,031
Restricted	0	299,644	2,364,626	2,664,270
Assigned	824,882	0	0	824,882
Unassigned (Deficit)	4,912,965	0	(122,316)	4,790,649
<b>Total Fund Balance</b>	<b>5,771,650</b>	<b>299,644</b>	<b>2,333,538</b>	<b>8,404,832</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$7,066,204</b>	<b>\$730,512</b>	<b>\$2,812,492</b>	<b>\$10,609,208</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
 Reconciliation of Total Governmental Fund Balance  
 to Net Position of Governmental Activities  
 December 31, 2015

Total Governmental Fund Balance		\$8,404,832
Amounts reported for governmental activities on the statement of net position are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,571,101
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable	218,569	
Due from Other Governments	567,233	
Municipal Income Taxes Receivable	550,782	
Delinquent Property Taxes Receivable	54,598	
		1,391,182
An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.		(7,779)
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds; it is reported when due.		(10,450)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Notes Payable	(677,000)	
OPWC Loans Payable	(108,928)	
Police Liability	(22,096)	
Fire Liability	(83,754)	
Capital Loan Payable	(259,068)	
Compensated Absences Payable	(719,214)	
		(1,870,060)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows - Pension	855,547	
Deferred Inflows - Pension	(20,541)	
Net Pension Liability	(6,263,207)	
		(5,428,201)
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		21,135
Net Position of Governmental Activities		\$21,071,760

See Accompanying Notes to the Basic Financial Statements

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City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2015

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$305,164	\$0	\$55,640	\$360,804
Municipal Income Taxes	2,312,341	2,057,982	254,357	4,624,680
Other Local Taxes	512,444	0	187,238	699,682
Special Assessments	0	0	273	273
Charges for Services	1,029,397	0	74,785	1,104,182
Fees, Licenses, and Permits	124,567	0	0	124,567
Fines and Forfeitures	13,718	0	18,981	32,699
Intergovernmental	295,239	0	1,160,324	1,455,563
Interest	19,398	0	4,498	23,896
Other	244,723	11,265	539,650	795,638
<b>Total Revenues</b>	<b>4,856,991</b>	<b>2,069,247</b>	<b>2,295,746</b>	<b>9,221,984</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	849,696	938,304	210,115	1,998,115
Fire	1,390,178	849,499	377,743	2,617,420
Public Health	525,573	0	0	525,573
Leisure Time Activities	0	0	825,061	825,061
Community Environment	25,000	0	8,212	33,212
Transportation	0	0	2,416,812	2,416,812
General Government	1,234,780	164,835	748	1,400,363
Debt Service:				
Principal Retirement	32,843	0	16,530	49,373
Interest and Fiscal Charges	9,196	0	4,696	13,892
<b>Total Expenditures</b>	<b>4,067,266</b>	<b>1,952,638</b>	<b>3,859,917</b>	<b>9,879,821</b>
Excess of Revenues Over (Under) Expenditures	789,725	116,609	(1,564,171)	(657,837)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	625,000	0	52,000	677,000
OPWC Loans Issued	0	0	56,581	56,581
Transfers In	0	0	1,984,853	1,984,853
Transfers Out	(2,183,800)	0	(71,806)	(2,255,606)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,558,800)</b>	<b>0</b>	<b>2,021,628</b>	<b>462,828</b>
<b>Changes in Fund Balance</b>	<b>(769,075)</b>	<b>116,609</b>	<b>457,457</b>	<b>(195,009)</b>
Fund Balance Beginning of Year	6,540,725	183,035	1,876,081	8,599,841
<b>Fund Balance End of Year</b>	<b>\$5,771,650</b>	<b>\$299,644</b>	<b>\$2,333,538</b>	<b>\$8,404,832</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
 Reconciliation of Statement of Revenues, Expenditures,  
 and Changes in Fund Balance  
 of Governmental Funds to Statement of Activities  
 For the Year Ended December 31, 2015

Changes in Fund Balance - Total Governmental Funds		(\$195,009)
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>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.</p>		
Capital Outlay - Nondepreciable Capital Assets	904,199	
Capital Outlay - Depreciable Capital Assets	1,693,445	
Depreciation	<u>(1,127,467)</u>	1,470,177
<p>The book value of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities.</p>		
		(139,502)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.</p>		
Delinquent Property Taxes	(2,963)	
Municipal Income Taxes	58,330	
Charges for Services	24,848	
Fees, Licenses, and Permits	378	
Intergovernmental	<u>(25,957)</u>	54,636
<p>Debt proceeds are reported as other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net position.</p>		
Notes Issued	(677,000)	
OPWC Loans Issued	<u>(56,581)</u>	(733,581)
<p>Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net position.</p>		
OPWC Loans Payable	13,087	
Police Liability	719	
Fire Liability	2,724	
Capital Loan Payable	<u>32,843</u>	49,373
<p>Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position.</p>		
		(3,648)
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(79,804)
<p>Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities.</p>		
		(624,084)
		(continued)

City of Galion  
Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
of Governmental Funds to Statement of Activities  
For the Year Ended December 31, 2015  
(continued)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. \$573,614

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. (23,542)

Change in Net Position of Governmental Activities \$348,630

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$300,346	\$300,346	\$305,164	\$4,818
Municipal Income Taxes	2,370,745	2,370,745	2,318,057	(52,688)
Other Local Taxes	441,360	441,360	514,307	72,947
Charges for Services	1,060,680	1,060,680	1,006,345	(54,335)
Fees, Licenses, and Permits	133,090	133,090	124,567	(8,523)
Fines and Forfeitures	4,670	4,670	15,839	11,169
Intergovernmental	300,420	300,420	293,968	(6,452)
Interest	0	2,290	19,398	17,108
Other	2,290	0	23,215	23,215
<b>Total Revenues</b>	<b>4,613,601</b>	<b>4,613,601</b>	<b>4,620,860</b>	<b>7,259</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,089,362	1,055,962	859,553	196,409
Fire	1,514,685	1,508,733	1,442,622	66,111
Public Health	554,660	540,660	530,725	9,935
Community Environment	39,900	39,900	25,000	14,900
General Government	1,505,686	1,450,159	1,263,711	186,448
Debt Service:				
Principal Retirement	32,843	32,843	32,843	0
Interest and Fiscal Charges	8,729	8,729	8,729	0
<b>Total Expenditures</b>	<b>4,745,865</b>	<b>4,636,986</b>	<b>4,163,183</b>	<b>473,803</b>
Excess of Revenues Over (Under) Expenditures	(132,264)	(23,385)	457,677	481,062
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	164,835	164,835	182,780	17,945
Bond Anticipation Notes Issued	695,000	695,000	695,000	0
Advances In	71,806	71,806	71,806	0
Advances Out	(71,806)	(71,806)	(71,494)	312
Tranfers Out	(1,175,888)	(2,379,715)	(2,183,800)	195,915
<b>Total Other Financing Sources (Uses)</b>	<b>(316,053)</b>	<b>(1,519,880)</b>	<b>(1,305,708)</b>	<b>214,172</b>
Changes in Fund Balance	(448,317)	(1,543,265)	(848,031)	695,234
Fund Balance Beginning of Year	5,982,842	5,982,842	5,982,842	0
Prior Year Encumbrances Appropriated	126,353	126,353	126,353	0
<b>Fund Balance End of Year</b>	<b>\$5,660,878</b>	<b>\$4,565,930</b>	<b>\$5,261,164</b>	<b>\$695,234</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
Police and Fire Levy Special Revenue Fund  
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$2,130,000	\$2,130,000	\$2,063,070	(\$66,930)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,025,364	1,025,364	936,942	88,422
Fire	917,432	917,432	852,955	64,477
General Government	164,835	164,835	164,835	0
Total Expenditures	2,107,631	2,107,631	1,954,732	152,899
Excess of Revenues Over Expenditures	22,369	22,369	108,338	85,969
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	10,870	10,870
Changes in Fund Balance	22,369	22,369	119,208	96,839
Fund Balance Beginning of Year	94,001	94,001	94,001	0
Fund Balance End of Year	<u>\$116,370</u>	<u>\$116,370</u>	<u>\$213,209</u>	<u>\$96,839</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2015

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Assets</u>					
<u>Current Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,665,499	\$4,058,980	\$7,591,047	\$1,534,223	\$15,849,749
Accounts Receivable	384,162	304,288	2,178,395	114,794	2,981,639
Due from Other Governments	155	141	194	32	522
Excise Taxes Receivable	0	0	34,416	0	34,416
Interfund Receivable	0	0	34,735	0	34,735
Prepaid Items	3,603	3,597	6,981	998	15,179
Materials and Supplies Inventory	16,756	2,249	0	0	19,005
Special Assessments Receivable	10,742	17,527	0	0	28,269
<b>Total Current Assets</b>	<b>3,080,917</b>	<b>4,386,782</b>	<b>9,845,768</b>	<b>1,650,047</b>	<b>18,963,514</b>
<u>Non-Current Assets</u>					
<u>Restricted Assets</u>					
Equity in Pooled Cash and Cash Equivalents	79,737	75,745	123,222	0	278,704
Special Assessments Receivable	96,680	157,741	0	0	254,421
Nondepreciable Capital Assets	906,726	1,166,784	3,840,067	216,644	6,130,221
Depreciable Capital Assets, Net	6,345,155	7,476,824	5,176,453	3,800,446	22,798,878
Investment in Joint Venture	0	0	735,378	0	735,378
<b>Total Non-Current Assets</b>	<b>7,428,298</b>	<b>8,877,094</b>	<b>9,875,120</b>	<b>4,017,090</b>	<b>30,197,602</b>
<b>Total Assets</b>	<b>10,509,215</b>	<b>13,263,876</b>	<b>19,720,888</b>	<b>5,667,137</b>	<b>49,161,116</b>
<u>Deferred Outflows of Resources</u>					
Pension	86,124	86,124	96,256	25,331	293,835
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Accrued Wages Payable	7,882	6,709	8,582	2,320	25,493
Accounts Payable	23,379	16,753	836,911	3,446	880,489
Contracts Payable	3,725	3,725	221,814	3,204	232,468
Due to Other Governments	20,068	16,410	25,563	6,475	68,516
Retainage Payable	485	0	269,331	4,366	274,182
Compensated Absences Payable	23,949	41,355	30,572	8,627	104,503
Interfund Payable	108,046	98,517	135,157	24,542	366,262
Accrued Interest Payable	0	0	59,497	260	59,757
Notes Payable	0	0	0	39,000	39,000
Claims Payable	0	0	0	0	0
General Obligation Bonds Payable	0	0	855,000	0	855,000
OPWC Loans Payable	10,555	0	0	30,371	40,926
OWDA Loans Payable	267,027	217,596	0	0	484,623
AMP Ohio Payable	0	0	270,943	0	270,943
<b>Total Current Liabilities</b>	<b>465,116</b>	<b>401,065</b>	<b>2,713,370</b>	<b>122,611</b>	<b>3,702,162</b>

Governmental  
Activity  

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Internal  
Service  
Fund  

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\$27,894  
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6,759

City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2015  
(continued)

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Non-Current Liabilities</u>					
Deposits Held and Due to Others	\$79,737	\$75,745	\$123,222	\$0	\$278,704
General Obligation Bonds Payable	0	0	5,839,000	0	5,839,000
OPWC Loans Payable	75,555	0	0	728,703	804,258
OWDA Loans Payable	5,227,822	4,655,719	0	0	9,883,541
AMP Ohio Payable	0	0	901,335	0	901,335
Compensated Absences Payable	99,743	191,406	88,314	19,240	398,703
Net Pension Liability	473,250	473,250	528,927	139,191	1,614,618
Total Non-Current Liabilities	5,956,107	5,396,120	7,480,798	887,134	19,720,159
Total Liabilities	6,421,223	5,797,185	10,194,168	1,009,745	23,422,321
 <u>Deferred Inflows of Resources</u>					
Pension	8,314	8,314	9,292	2,445	28,365
 <u>Net Position</u>					
Net Investment in Capital Assets	1,667,197	3,766,568	3,103,432	3,213,538	11,750,735
Unrestricted	2,498,605	3,777,933	6,510,252	1,466,740	14,253,530
Total Net Position	\$4,165,802	\$7,544,501	\$9,613,684	\$4,680,278	26,004,265
Net position reported for business-type activities on the statement of net position is different because it includes a proportionate share of the balance of the internal service fund.				7,779	
Net position of business-type activities				\$26,012,044	

See Accompanying Notes to the Basic Financial Statements



Governmental  
Activity  

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Internal  
Service  
Fund  

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\$0  
0  
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6,759

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21,135

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\$21,135

City of Galion  
Statement of Revenues, Expenses,  
and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2015

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Operating Revenues</u>					
Charges for Services	\$1,827,778	\$1,682,643	\$11,720,525	\$687,878	\$15,918,824
Other	28,440	32,154	84,618	36,160	181,372
<b>Total Operating Revenues</b>	<b>1,856,218</b>	<b>1,714,797</b>	<b>11,805,143</b>	<b>724,038</b>	<b>16,100,196</b>
<u>Operating Expenses</u>					
Salaries	490,488	534,447	589,187	183,938	1,798,060
Benefits	208,851	234,244	311,506	73,090	827,691
Contractual Services	261,584	314,071	10,037,801	45,347	10,658,803
Materials and Supplies	234,285	206,223	1,161,600	87,523	1,689,631
Claims	0	0	0	0	0
Depreciation	364,019	582,595	207,430	85,055	1,239,099
Other	87,963	116,065	103,547	74,991	382,566
<b>Total Operating Expenses</b>	<b>1,647,190</b>	<b>1,987,645</b>	<b>12,411,071</b>	<b>549,944</b>	<b>16,595,850</b>
<b>Operating Income (Loss)</b>	<b>209,028</b>	<b>(272,848)</b>	<b>(605,928)</b>	<b>174,094</b>	<b>(495,654)</b>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Revenue	0	0	2,283	0	2,283
Interest Expense	(177,332)	(190,251)	(321,205)	(260)	(689,048)
Loss on Disposal of Capital Assets	0	0	(139,616)	0	(139,616)
Loss from Joint Venture	0	0	(137,247)	0	(137,247)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(177,332)</b>	<b>(190,251)</b>	<b>(595,785)</b>	<b>(260)</b>	<b>(963,628)</b>
<b>Income (Loss) before Contributions and Transfers</b>	<b>31,696</b>	<b>(463,099)</b>	<b>(1,201,713)</b>	<b>173,834</b>	<b>(1,459,282)</b>
Capital Contributions	0	0	0	173,205	173,205
Transfers In	120,776	135,462	84,726	21,084	362,048
Transfers Out	(27,302)	(44,543)	0	(19,450)	(91,295)
<b>Changes in Net Position</b>	<b>125,170</b>	<b>(372,180)</b>	<b>(1,116,987)</b>	<b>348,673</b>	<b>(1,015,324)</b>
<b>Net Position Beginning of Year - Restated (Note 3)</b>	<b>4,040,632</b>	<b>7,916,681</b>	<b>10,730,671</b>	<b>4,331,605</b>	
<b>Net Position End of Year</b>	<b>\$4,165,802</b>	<b>\$7,544,501</b>	<b>\$9,613,684</b>	<b>\$4,680,278</b>	
The change in net position reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net loss of the internal service fund.				(13,827)	
Change in net position of business-type activities				(\$1,029,151)	

See Accompanying Notes to the Basic Financial Statements

Governmental  
Activity  

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Internal  
Service  
Fund  

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\$55,855  

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0

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55,855

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93,224  
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93,224

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(37,369)

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(37,369)

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58,504

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\$21,135

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2015

	Business-Type Activities			
	Water	Sewer	Electric	Storm Water
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,741,706	\$1,634,249	\$11,434,898	\$667,080
Cash Received from				
Transactions with Other Funds	0	0	0	0
Cash Received from Deposits	23,091	22,608	40,157	0
Cash Received from Other Revenues	28,285	32,013	84,424	1,392
Cash Payments for Salaries	(520,061)	(457,258)	(632,314)	(157,675)
Cash Payments for Benefits	(222,020)	(247,815)	(324,589)	(74,706)
Cash Payments for Contractual Services	(245,864)	(341,854)	(10,310,165)	(46,433)
Cash Payments for Materials and Supplies	(293,730)	(220,404)	(1,262,865)	(90,129)
Cash Payments for Claims	0	0	0	0
Cash Payments for Deposits Refunded	(22,186)	(21,686)	(44,362)	0
Cash Payments for Other Expenses	(85,711)	(62,928)	(40,364)	(21,084)
Net Cash Provided by (Used for) Operating Activities	<u>403,510</u>	<u>336,925</u>	<u>(1,055,180)</u>	<u>278,445</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	85,710	79,272	84,726	21,084
Transfers Out	(16,685)	(27,221)	0	(19,450)
Net Cash Provided by Noncapital Financing Activities	<u>69,025</u>	<u>52,051</u>	<u>84,726</u>	<u>1,634</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes	0	0	0	0
Principal Paid on General Obligation Bonds	0	0	(824,000)	0
Principal Paid on OPWC Loans	(10,555)	0	0	(18,818)
Principal Paid on OWDA Loans	(258,941)	(221,333)	0	0
Interest Paid on Bond Anticipation Notes	0	0	0	0
Interest Paid on General Obligation Bonds	0	0	(327,932)	0
Interest Paid on OWDA Loans	(168,628)	(176,049)	0	0
Bond Anticipation Notes Issued	0	0	0	39,000
OPWC Loans Issued	0	0	0	693,209
OWDA Loans Issued	18,267	554	0	0
Acquisition of Capital Assets	(304,387)	(43,690)	(377,174)	(905,474)
Loss on Disposal of Capital Assets	0	0	(5,945)	0
Net Cash Used for Capital and Related Financing Activities	<u>(724,244)</u>	<u>(440,518)</u>	<u>(1,535,051)</u>	<u>(192,083)</u>
<u>Cash Flows from Investing Activities</u>				
Interest	0	0	2,283	0
Net Increase (Decrease) in Cash and Cash Equivalents	(251,709)	(51,542)	(2,503,222)	87,996
Cash and Cash Equivalents Beginning of Year	<u>2,996,945</u>	<u>4,186,267</u>	<u>10,217,491</u>	<u>1,446,227</u>
Cash and Cash Equivalents End of Year	<u>\$2,745,236</u>	<u>\$4,134,725</u>	<u>\$7,714,269</u>	<u>\$1,534,223</u>

Total Enterprise Funds	Governmental Activity <u>Internal Service Fund</u>
\$15,477,933	\$0
0	55,855
85,856	0
146,114	0
(1,767,308)	0
(869,130)	0
(10,944,316)	0
(1,867,128)	0
0	(92,185)
(88,234)	0
(210,087)	0
<u>(36,300)</u>	<u>(36,330)</u>
270,792	0
<u>(63,356)</u>	<u>0</u>
<u>207,436</u>	<u>0</u>
0	0
(824,000)	0
(29,373)	0
(480,274)	0
0	0
(327,932)	0
(344,677)	0
39,000	0
693,209	0
18,821	0
(1,630,725)	0
<u>(5,945)</u>	<u>0</u>
<u>(2,891,896)</u>	<u>0</u>
<u>2,283</u>	<u>0</u>
(2,718,477)	(36,330)
<u>18,846,930</u>	<u>64,224</u>
<u>\$16,128,453</u>	<u>\$27,894</u>

(continued)

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2015  
(continued)

	Business-Type Activities			
	Water	Sewer	Electric	Storm Water
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	\$209,028	(\$272,848)	(\$605,928)	\$174,094
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Allowance for Uncollectibles	(32,188)	27,449	(73,557)	50,449
Depreciation	364,019	582,595	207,430	85,055
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(86,197)	(48,599)	(273,131)	(55,534)
Increase in Due from Other Governments	(155)	(141)	(194)	(32)
Decrease in Excise Taxes Receivable	0	0	1,932	0
Increase in Interfund Receivable	0	0	(12,496)	0
(Increase) Decrease in Prepaid Items	(754)	214	(1,531)	(800)
(Increase) Decrease in Materials and Supplies Inventory	(1,596)	1,236	0	0
Decrease in Special Assessments Receivable	125	205	0	0
Increase in Accrued Wages Payable	2,998	1,901	2,294	1,533
Increase (Decrease) in Accounts Payable	2,328	(7,112)	28,216	(885)
Decrease in Contracts Payable	(20,413)	(20,446)	(25,240)	(2,192)
Increase (Decrease) in Due to Other Governments	(2,410)	(4,390)	(1,678)	1,332
Increase in Retainage Payable	485	0	0	0
Increase (Decrease) in Compensated Absences Payable	(32,571)	75,288	(45,421)	24,730
Increase in Interfund Payable	9,298	10,043	16,861	3,458
Increase in Claims Payable	0	0	0	0
Increase (Decrease) in Deposits Held and Due to Others	905	922	(4,205)	0
Decrease in AMP Ohio Payable	0	0	(258,036)	0
Decrease in Net Pension Liability	(8,725)	(8,725)	(9,750)	(2,566)
Decrease in Deferred Outflows - Pension	3,169	3,169	3,542	932
Decrease in Deferred Inflows - Pension	(3,836)	(3,836)	(4,288)	(1,129)
Net Cash Provided by (Used for) Operating Activities	<u>\$403,510</u>	<u>\$336,925</u>	<u>(\$1,055,180)</u>	<u>\$278,445</u>

Non-Cash Capital Transactions

During 2015, governmental funds donated capital assets to the Storm Water enterprise fund, in the amount of \$173,205.

During 2015, the Electric enterprise fund purchased capital assets and donated them to governmental funds, in the amount of \$5,945.

During 2015, the Storm Water enterprise fund donated capital assets to the Water and Sewer enterprise funds, in the amount of \$7,780 and \$11,670, respectively.

See Accompanying Notes to the Basic Financial Statements

Total Enterprise Funds	Governmental
	Activity Internal Service Fund
(\$495,654)	(\$37,369)
(27,847)	0
1,239,099	0
(463,461)	0
(522)	0
1,932	0
(12,496)	0
(2,871)	0
(360)	0
330	0
8,726	0
22,547	0
(68,291)	0
(7,146)	0
485	0
22,026	0
39,660	0
0	1,039
(2,378)	0
(258,036)	0
(29,766)	0
10,812	0
(13,089)	0
<u>(\$36,300)</u>	<u>(\$36,330)</u>

City of Galion  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2015

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$42,670</u>
<u>Liabilities</u>	
Undistributed Assets	<u>\$42,670</u>

See Accompanying Notes to the Basic Financial Statements



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

A. The City

The City of Galion is a statutory municipal corporation operating under the laws of the State of Ohio. Galion was incorporated as a city in 1842.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to two-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Service-Safety Director, are elected positions. The Service-Safety Director is appointed by the Mayor.

The City of Galion is divided into various departments and financial management and control systems. 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 the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and 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 that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

Discretely Presented Component Unit

The component unit column on the financial statements identifies the financial data of the City's component unit, the Egbert M. Freese Foundation. It is reported separately to emphasize that it is legally separate from the City. Information about this component unit is presented in Note 21 to the basic financial statements.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

Egbert M. Freese Foundation - The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2015, the City received \$440,894 from the Foundation. Information on the Foundation may be obtained from the Law Offices of Hottenroth, Garverick, Tilson & Co., L.P.A., 126 South Market Street, P.O. Box 477, Galion, Ohio 44833.

The City of Galion participates in two joint ventures, a jointly governed organization, and a related organization. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1), the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), the Galion/Polk Township Community Improvement Corporation, and the Galion Public Library. These organizations are presented in Notes 22, 23, and 24 to the basic financial statements.

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

The financial statements of the City of Galion have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

Proprietary Funds

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

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

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2015. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for transient fees collected for use by a convention and visitors bureau and for health care contributions deducted from employee salaries.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the City, deferred outflows of resources are reported on the government-wide and proprietary funds statement of net position for pension and explained in Note 14 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2015, but which were levied to finance 2016 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position and explained in Note 14 to the basic financial statements.

Expenses/Expenditures

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

E. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Auditor. 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 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".

During 2015, the City invested in repurchase agreements, which are reported at cost.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2015 was \$19,398 which includes \$14,639 assigned from other City funds.

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

**G. Restricted Assets**

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

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

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2015, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**I. Inventory**

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

**J. Capital Assets**

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

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

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**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**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	20-25 years	30-100 years
Streets	10-40 years	N/A
Bridges	50 years	N/A
Water, Sewer, Electric, and Storm Water Lines	N/A	50 years
Equipment	5-20 years	10-50 years
Vehicles	5-30 years	10-15 years

**K. Interfund Receivables/Payables**

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

**L. Compensated Absences**

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

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

**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**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**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, net pension liability and 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. OPWC loans, the police and fire liability, and capital loans are recognized as liabilities on the fund financial statements when due.

**N. Net Position**

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

**O. Fund Balance**

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by City Council. The City Council has authorized the Auditor to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. City Council has also assigned amounts to cover a gap between estimated resources and appropriations in the 2016 budget.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

P. Operating Revenues and Expenses

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

Q. Capital Contributions

Capital contributions arise from contributions from other funds of the City.

R. Interfund Transactions

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

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

**S. Pension**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**T. Estimates**

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

**Note 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

For 2015, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows and deferred inflows of resources, and pension expenses/expenditures. The implementation of this statement had the following effect on net position as previously reported on December 31, 2014.

	Water	Sewer	Electric	Storm Water	Internal Service
Net Position (Deficit) at December 31, 2014	\$4,445,464	\$8,321,513	\$11,183,130	\$4,450,673	\$58,504
Net Pension Liability	(462,561)	(462,561)	(516,980)	(136,047)	0
Deferred Outflows - Payment Subsequent to Measurement Date	57,729	57,729	64,521	16,979	0
Adjusted Net Position at December 31, 2014	<u>\$4,040,632</u>	<u>\$7,916,681</u>	<u>\$10,730,671</u>	<u>\$4,331,605</u>	<u>\$58,504</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**Note 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**  
(continued)

	Governmental Activities	Business-Type Activities
Net Position December 31, 2014	\$26,100,861	\$28,422,386
Net Pension Liability	(5,931,867)	(1,578,149)
Deferred Outflows - Payment Subsequent to Measurement Date	554,136	196,958
Restated Net Position December 31, 2014	\$20,723,130	\$27,041,195

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred outflows or deferred inflows of resources as the information needed to generate these restatements was not available.

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

At December 31, 2015, the following funds had deficit fund balances:

Fund	Deficit
Nonmajor Special Revenue Funds	
Police Pension	\$17,347
Fire Pension	22,970
Nonmajor Debt Service Fund	
Cheshire Special Assessment	71,494

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

B. Compliance

For the year ended December 31, 2015, the Street Maintenance and Fire Pension special revenue funds and the Issue I and SR 598 Construction capital projects funds had final appropriations in excess of estimated resources plus available balances, in the amount of \$29,331, \$647, \$9,924, and \$6,189, respectively. The City will review appropriations to ensure they are within amounts available.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2015.

Fund Program/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Water Fund			
Debt Service			
Principal Retirement	\$251,242	\$269,496	\$18,254
Storm Water Fund			
Street Water Distribution			
Capital Outlay	1,397,605	1,457,902	60,297
Health Insurance Fund			
Health Insurance			
Claims	88,905	92,185	3,280

The Auditor will review expenditures to ensure they are within amounts appropriated.

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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

	<u>General</u>	<u>Police and Fire Levy</u>
GAAP Basis	(\$769,075)	\$116,609
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2014, Received in Cash 2015	518,375	145,517
Accrued 2015, Not Yet Received in Cash	(571,726)	(140,824)
Expenditure Accruals:		
Accrued 2014, Paid in Cash 2015	(178,616)	(56,483)
Accrued 2015, Not Yet Paid in Cash	104,631	54,389
Cash Accruals:		
Unrecorded Activity 2014	1,511	0
Unrecorded Activity 2015	(1,021)	0
Prepaid Items	655	0
Notes Issued	70,000	0
Advances In	71,806	0
Advances Out	(71,494)	0
Encumbrances Outstanding at Year End (Budget Basis)	(23,077)	0
Budget Basis	<u>(\$848,031)</u>	<u>\$119,208</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

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 Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage 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 and, with certain limitations, bonds and other obligations of political subdivisions 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 40 percent of the interim monies available for investment at any one time.

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

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



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$2,097,947 of the City's bank balance of \$18,401,946 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2015, the City had the following investment:

	Fair Value	Maturity
Repurchase Agreement	\$5,759,092	1/4/16

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

The securities underlying the repurchase agreement (Federal National Mortgage Association Notes) carry a rating of Aaa by Moody's. The City has no investment policy dealing with credit risk beyond the requirements of State Statute. Ohio law requires that repurchase agreements be limited to investments in United States treasury securities and federal government agency securities.

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

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

	Fair Value	Percentage of Portfolio
Repurchase Agreement	\$5,759,092	100%

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2015, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for municipal income taxes, property taxes, notes, special assessments, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$63,851, will not be received within one year. Special assessments, in the amount of \$254,421, will not be received within one year.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$563,883	\$470,304	\$3,316,372	\$188,458	\$4,539,017
Less Allowance for Uncollectibles	(179,721)	(166,016)	(1,137,977)	(73,664)	(1,557,378)
Net Accounts Receivable	<u>\$384,162</u>	<u>\$304,288</u>	<u>\$2,178,395</u>	<u>\$114,794</u>	<u>\$2,981,639</u>

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant. The notes have an annual interest rate of 4 percent and are paid over a period of 15 years.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$26,686
Local Government	86,064
Cigarette Taxes	393
Crawford County	10,800
Victims of Crime	14,885
Ohio Bureau of Workers' Compensation	545
Ohio Department of Health	20,675
Total General Fund	<u>160,048</u>
Police and Fire Levy	
Ohio Bureau of Workers' Compensation	395
Total Major Funds	<u>160,443</u>
	(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 7 - RECEIVABLES** (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds	
Street Maintenance	
Ohio Bureau of Workers' Compensation	\$45
Gasoline Tax	156,023
Motor Vehicle License Tax	32,555
Total Street Maintenance	188,623
State Highway	
Gasoline Tax	12,651
Motor Vehicle License Tax	2,640
Total State Highway	15,291
Recreation	
Ohio Bureau of Workers' Compensation	22
Airport	
Ohio Bureau of Workers' Compensation	11
Police Pension	
Homestead and Rollback	2,430
Fire Pension	
Homestead and Rollback	2,430
Total Nonmajor Funds	208,807
Total Governmental Activities	\$369,250
Business-Type Activities	
Water	\$155
Sewer	141
Electric	194
Storm Water	32
Total Business Type Funds	\$522

**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 and 1 percent approved by voters; .89 percent to be used exclusively for increased police and fire protection services, fire suppression equipment and structures, and an ambulance subsidy, and .11 percent to be used exclusively for recreation purposes and the acquisition of real estate for recreation.

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2015 represent the collection of 2014 taxes. Real property taxes received in 2015 were levied after October 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2015 represent the collection of 2014 taxes. Public utility real and tangible personal property taxes received in 2015 became a lien on December 31, 2013, were levied after October 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2015, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2015 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2015, was \$3.90 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2015 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural	\$612,930
Residential	81,056,660
Commercial	18,515,060
Industrial	6,675,420
Public Utility Property	
Real	46,890
Personal	1,011,060
Total Assessed Value	\$107,918,020

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015
<b>Governmental Activities:</b>				
<b>Nondepreciable Capital Assets</b>				
Land	\$3,485,816	\$0	\$0	\$3,485,816
Construction in Progress	3,619,752	904,199	(4,032,278)	491,673
<b>Total Nondepreciable Capital Assets</b>	<b>7,105,568</b>	<b>904,199</b>	<b>(4,032,278)</b>	<b>3,977,489</b>
<b>Depreciable Capital Assets</b>				
Buildings	1,050,562	20,500	0	1,071,062
Improvements Other Than Buildings	1,234,815	344,974	0	1,579,789
Streets	23,886,053	4,461,408	(312,462)	28,034,999
Bridges	1,236,330	0	0	1,236,330
Equipment	1,226,422	104,062	(23,308)	1,307,176
Vehicles	2,502,738	794,779	(209,000)	3,088,517
<b>Total Depreciable Capital Assets</b>	<b>31,136,920</b>	<b>5,725,723</b>	<b>(544,770)</b>	<b>36,317,873</b>
<b>Less Accumulated Depreciation for</b>				
Buildings	(532,591)	(29,293)	0	(561,884)
Improvements Other Than Buildings	(357,564)	(58,639)	0	(416,203)
Streets	(17,492,031)	(835,579)	221,719	(18,105,891)
Bridges	(647,905)	(24,727)	0	(672,632)
Equipment	(683,708)	(71,352)	23,308	(731,752)
Vehicles	(1,288,263)	(107,877)	160,241	(1,235,899)
<b>Total Accumulated Depreciation</b>	<b>(21,002,062)</b>	<b>(1,127,467)</b>	<b>405,268</b>	<b>(21,724,261)</b>
<b>Total Depreciable Capital Assets, Net</b>	<b>10,134,858</b>	<b>4,598,256</b>	<b>(139,502)</b>	<b>14,593,612</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$17,240,426</b>	<b>\$5,502,455</b>	<b>(\$4,171,780)</b>	<b>\$18,571,101</b>

Governmental activities accepted contributions of capital assets from business-type activities with a fair value of \$5,945.

**Business-Type Activities:**

<b>Nondepreciable Capital Assets</b>				
Land	\$2,211,015	\$0	\$0	\$2,211,015
Construction in Progress	3,040,839	1,770,114	(891,747)	3,919,206
<b>Total Nondepreciable Capital Assets</b>	<b>5,251,854</b>	<b>1,770,114</b>	<b>(891,747)</b>	<b>6,130,221</b>

(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015
Business-Type Activities (continued):				
Depreciable Capital Assets				
Buildings	\$19,195,726	\$53,643	(\$5,945)	\$19,243,424
Improvements Other Than Buildings	7,599,975	0	0	7,599,975
Water, Sewer, Electric, and Storm Water Lines	11,507,061	1,185,403	(1,417)	12,691,047
Equipment	3,359,659	13,405	0	3,373,064
Vehicles	1,445,428	38,901	(154,235)	1,330,094
Total Depreciable Capital Assets	<u>43,107,849</u>	<u>1,291,352</u>	<u>(161,597)</u>	<u>44,237,604</u>
Less Accumulated Depreciation for				
Buildings	(10,599,561)	(697,249)	0	(11,296,810)
Improvements Other Than Buildings	(2,485,458)	(140,747)	0	(2,626,205)
Water, Sewer, Electric, and Storm Water Lines	(4,062,540)	(221,546)	1,417	(4,282,669)
Equipment	(1,973,033)	(131,321)	0	(2,104,354)
Vehicles	(1,101,016)	(48,236)	20,564	(1,128,688)
Total Accumulated Depreciation	<u>(20,221,608)</u>	<u>(1,239,099)</u>	<u>21,981</u>	<u>(21,438,726)</u>
Total Depreciable Capital Assets, Net	<u>22,886,241</u>	<u>52,253</u>	<u>(139,616)</u>	<u>22,798,878</u>
Business-Type Activities Capital Assets, Net	<u>\$28,138,095</u>	<u>\$1,822,367</u>	<u>(\$1,031,363)</u>	<u>\$28,929,099</u>

Business-type activities accepted contributions of capital assets from governmental activities with a fair value of \$173,205.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$21,848
Security of Persons and Property - Fire	64,632
Public Health	5,375
Leisure Time Activities	43,679
Transportation	962,817
General Government	29,116
Total Depreciation Expense - Governmental Activities	<u>\$1,127,467</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 11 - INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2015, the General Fund had an interfund receivable, in the amount of \$417,521; \$85,994 from other governmental funds for short-term loans made to those funds, and \$87,963 from the Water enterprise fund, \$83,865 from the Sewer enterprise fund, \$135,157 from the Electric enterprise fund, and \$24,542 from the Storm Water enterprise fund for services provided to those funds. The Electric enterprise fund had an interfund receivable, in the amount of \$34,735; \$20,083 from the Water enterprise fund and \$14,652 from the Sewer enterprise fund for services provided to those funds. Amounts are expected to be received within one year.

**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 2015, the City contracted with U. S. Specialty Insurance Company for the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$16,411,876	\$1,000
Flood/Earthquake	1,000,000	50,000
General Liability		
Per Occurrence	6,000,000	0
Employee Benefits Liability	1,000,000	1,000
Stop Gap Liability	6,000,000	0
Law Enforcement Liability	6,000,000	5,000
Automobile Liability	6,000,000	0
Crime Coverage	6,000,000	1,000

There has been no significant reduction in insurance coverage from 2014 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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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

The changes in the claims liability for 2015 and 2014 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2015	\$5,720	\$93,224	\$92,185	\$6,759
2014	1,906	90,974	87,160	5,720

**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, 2015:

Vendor	Contract Amount	Amount Paid as of 12/31/15	Outstanding Balance
Buckeye Excavating and Construction	\$1,662,547	\$415,369	\$1,247,178
GPD Group	176,790	24,081	152,709
Main Lite Electric	1,005,500	253,116	752,384
Makeever & Associates	188,466	110,519	77,947
Underground Utilities	225,000	118,191	106,809

At year end, the significant encumbrances expected to be honored upon performance by the vendor in 2015 are as follows:

General Fund	\$23,077
Other Governmental Funds	963,387

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions, between an employer and its employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables including estimated average life expectancies, earnings on investments, cost of living adjustments, and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation, including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services, and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually required pension contribution outstanding at the end of the year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

**Plan Description - Ohio Public Employees Retirement System (OPERS)**

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information).

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013, or five years after January 7, 2013	20 years of service credit prior to January 7, 2013, or eligible to retire ten years after January 7, 2013	Members not in other groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 years	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 years
<b>Public Safety</b>	<b>Public Safety</b>	<b>Public Safety</b>
<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Law Enforcement</b>	<b>Law Enforcement</b>	<b>Law Enforcement</b>
<b>Age and Service Requirements:</b> Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	<b>Age and Service Requirements:</b> Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>	<b>Public Safety and Law Enforcement</b>
<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years	<b>Formula:</b> 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25 years

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

When a benefit recipient has received benefits for twelve months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows.

	State and Local	Public Safety	Law Enforcement
<b>2015 Statutory Maximum Contribution Rates</b>			
Employer	14.0%	18.1%	18.1%
Employee	10.0 %	*	**
<b>2015 Actual Contribution Rates</b>			
Employer			
Pension	12.0 %	16.1 %	16.1 %
Postemployment Health Care Benefits	2.0	2.0	2.0
Total Employer	14.0 %	18.1 %	18.1 %
Total Employee	10.0 %	12.0 %	13.0 %

\* This rate is determined by OPERS' Board and has no maximum rate established by the ORC.

\*\* This rate is also determined by OPERS' Board but is limited by the ORC to not more than 2 percent greater than the public safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$358,075 for 2015. Of this amount, \$39,039 is reported as an intergovernmental payable.

**Plan Description - Ohio Police and Fire Pension Fund (OPF)**

Plan Description - Full-time police and firefighters participate in the Ohio Police and Fire Pension Fund (OPF), a cost-sharing multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information, required supplementary information, and detailed information about OPF's fiduciary net position that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

Upon attaining a qualifying age with sufficient years of service, an OPF member may retire and receive a lifetime monthly pension. OPF offers four types of service retirement; normal, service commuted, age/service commuted, and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is fifty-two for normal service retirement with at least twenty-five years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is forty-eight for normal service retirement with at least twenty-five years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first twenty years of service credit, 2 percent for each of the next five years of service credit, and 1.5 percent for each year of service credit in excess of twenty-five years. The maximum pension of 72 percent of the allowable average annual salary is paid after thirty-three years of service credit.

Under normal service retirement, retired members who are at least fifty-five years old and have been receiving OPF benefits for at least one year may be eligible for a cost of living allowance adjustment. The age fifty-five provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than fifteen years of service credit on July 1, 2013, will receive a COLA equal to either 3 percent or the percent increase, if any, in the Consumer Price Index over the twelve month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least fifteen years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows.

	Police	Firefighters
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50%	24.00%
Employee		
January 1, 2015, through July 1, 2015	11.50 %	11.50 %
July 2, 2015, through December 31, 2015	12.25 %	12.25 %
<b>2015 Actual Contribution Rates</b>		
Employer		
Pension	19.00 %	23.50 %
Postemployment Health Care Benefits	.50	.50
Total Employer	19.50 %	24.00 %
Employee		
January 1, 2015, through July 1, 2015	11.50 %	11.50 %
July 2, 2015, through December 31, 2015	12.25 %	12.25 %

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution was \$423,223 for 2015. Of this amount, \$48,303 is reported as an intergovernmental payable.

**Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension**

The net pension liability for OPERS was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,783,827	\$5,093,998	\$7,877,825
Proportion of the Net Pension Liability	0.02308100%	0.09833180%	
Pension Expense	\$302,829	\$496,896	\$799,725

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$148,537	\$219,547	\$368,084
City contributions subsequent to the measurement date	358,075	423,223	781,298
Total Deferred Outflows of Resources	<u>\$506,612</u>	<u>\$642,770</u>	<u>\$1,149,382</u>
<b>Deferred Inflows of Resources</b>			
Difference between expected and actual experience	<u>(\$48,906)</u>	<u>\$0</u>	<u>(\$48,906)</u>

\$781,298 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
Year Ending December 31,			
2016	\$14,568	\$54,887	\$69,455
2017	14,568	54,887	\$69,455
2018	33,360	54,887	\$88,247
2019	37,135	54,886	\$92,021
Total	<u>\$99,631</u>	<u>\$219,547</u>	<u>\$319,178</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent, including wage inflation
COLA or Ad Hoc COLA	3 percent simple
Investment Rate of Return	8 percent
Actuarial Cost Method	individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected twenty years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 Mortality Table with no projections. For males, 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio, and the Defined Contribution portfolio. The Defined Benefits portfolio includes the investment assets of the traditional pension plan, the defined benefit component of the combined plan, the annuitized accounts of the member-directed plan, and the VEBA Trust. Within the Defined Benefits portfolio, contributions into the plans are all recorded at the same time and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expenses, for the Defined Benefits portfolio was 6.95 percent for 2014.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

The allocation of investment assets with the Defined Benefits portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plan. The table below displays the board approved asset allocation policy for 2014 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
<b>Total</b>	<b>100.00 %</b>	<b>5.28 %</b>

**Discount Rate** - The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7 percent) or one percentage point higher (9 percent) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's Proportionate Share of the Net Pension Liability	\$5,121,443	\$2,783,827	\$814,990

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

**Actuarial Assumptions - OPF**

OPF's total pension liability as of December 31, 2014, is based on the results of an actuarial valuation date of January 1, 2014, and rolled forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67 as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements, and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of January 1, 2014, are presented below.

Valuation Date	January 1, 2014
Actuarial Cost Method	entry age normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.6 percent and 3 percent

Mortality rates are based on the RP-2000 Combined Table, age adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block approach and assumes a time horizon as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2014, are summarized below.



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 14 - DEFINED BENEFIT PENSION PLANS** (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equities	16.00	4.47
Non-U.S. Equities	16.00	4.47
Core Fixed Income*	20.00	1.62
Global Inflation Protected*	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
<b>Total</b>	<b>120.00 %</b>	

\* levered 2x

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall total portfolio risk without sacrificing return and creating a more risk balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the total portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and, to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.25 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent) or one percentage point higher (9.25 percent) than the current rate.

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
City's Proportionate Share of the Net Pension Liability	\$7,045,769	\$5,093,998	\$3,441,440

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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

OPERS maintains two cost-sharing multiple-employer defined benefit postemployment health care trusts which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a health reimbursement arrangement, and Medicare Part B premium reimbursements to qualifying benefit recipients of both the traditional pension and combined plans. Members of the member-directed plan do not qualify for ancillary benefits including OPERS sponsored health care coverage.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state and local employers contributed 14 percent of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees and the traditional pension and combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a retiree medical account for member-directed plan members.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS** (continued)

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund the health care plans. The portion of the employer contribution allocated to health care for members in both the traditional pension and combined plans was 2 percent for 2015. As recommended by the OPERS actuary, the portion of the employer contribution allocated to health care beginning January 1, 2016, remained at 2 percent for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the VEBA for participants in the member-directed plan was 4.5 percent for 2015.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing multiple-employer trusts. The corresponding contribution for the years ended December 31, 2015, 2014, and 2013 was \$59,679, \$56,597, and \$25,495, respectively. For 2015, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**B. Police and Fire Pension Fund**

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

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 15 - POSTEMPLOYMENT BENEFITS** (continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2015, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of the employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF for the years ended December 31, 2015, 2014, and 2013, was \$433,126, \$421,138, and \$397,823, respectively, of which \$9,903, \$9,626, and \$65,807 was allocated to the health care plan. For 2015, 89 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2014 and 2013.

**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.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 16 - OTHER EMPLOYEE BENEFITS** (continued)

Sick leave is earned at various rates as defined by City policy and union contracts. Employees who are part of the Ohio Patrolmen's Benevolent Association and the Fraternal Order of Police, who were hired before January 1, 2014, and who have three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave. Members of these two unions who were hired after January 1, 2014, and have five or more years of full-time service with the City are entitled to receive one-half of the value of their accumulated unused sick leave. Members of the International Association of Firefighters with five or more years of full-time service with the City 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. All other employees having three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave regardless of date of hire.

**NOTE 17 - NOTES PAYABLE**

The City's note transactions for the year ended December 31, 2015, were as follows:

	Interest Rate	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015
<u>Governmental Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
General Fund					
Fire Truck	0.75%	\$0	\$70,000	\$0	\$70,000
Special Revenue Fund					
Street Truck	0.75	0	13,000	0	13,000
Total Governmental Activities		<u>0</u>	<u>83,000</u>	<u>0</u>	<u>83,000</u>
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Fund					
Utility Truck	0.75%	<u>\$0</u>	<u>\$39,000</u>	<u>\$0</u>	<u>\$39,000</u>

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

The bond anticipation notes in the General Fund, in the amount of \$70,000, were issued on July 30, 2015, to acquire a fire truck. The notes matured on July 29, 2016.

The bond anticipation notes in the Street Maintenance Fund, in the amount of \$13,000, were issued on July 30, 2015, to acquire two trucks. The notes matured on July 29, 2016.

The bond anticipation notes in the Storm Water enterprise fund, in the amount of \$39,000, were issued on July 30, 2015, to acquire a utility truck. The notes matured on July 29, 2016.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 18 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2015, was as follows:

	Interest Rate	Restated Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bond Anticipation Notes						
Fire Truck	0.75%	\$0	\$625,000	\$0	\$625,000	\$625,000
Street Truck	0.75	0	52,000	0	52,000	52,000
Total General Obligation Bond Anticipation Notes		0	677,000	0	677,000	677,000
Net Pension Liability						
Ohio Public Employees Retirement System						
		1,142,800	26,409	0	1,169,209	0
Ohio Police and Fire Pension						
		4,789,067	304,931	0	5,093,998	0
Total Net Pension Liability		5,931,867	331,340	0	6,263,207	0
OPWC Loans						
#CP02L	0.00	65,434	0	13,087	52,347	13,087
Portland Way South	0.00	0	56,581	0	56,581	0
Police Liability		22,815	0	719	22,096	750
Fire Liability		86,478	0	2,724	83,754	2,841
Capital Loan Payable (Fire Truck)	2.99	291,911	0	32,843	259,068	33,825
Compensated Absences Payable		639,410	90,757	10,953	719,214	248,552
Total Governmental Activities		\$7,037,915	\$1,155,678	\$60,326	\$8,133,267	\$976,055
<u>Business-Type Activities</u>						
General Obligation Bonds						
2007 Electric Improvement (Original Amount \$8,952,000)						
	5.25%	\$5,768,000	\$0	\$574,000	\$5,194,000	\$605,000
2011 Electric Improvement (Original Amount \$2,500,000)						
	2.15	1,750,000	0	250,000	1,500,000	250,000
Total General Obligation Bonds		7,518,000	0	824,000	6,694,000	855,000
Net Pension Liability						
Ohio Public Employees Retirement System						
		1,578,149	36,469	0	1,614,618	0
OPWC Loans						
Railroad Street Waterline (Original Amount \$71,104)						
	0.00	26,665	0	3,555	23,110	3,555
West End Waterline (Original Amount \$140,000)						
	0.00	70,000	0	7,000	63,000	7,000
North Market Storm Sewer (Original Amount \$94,092)						
	0.00	84,683	0	18,818	65,865	18,818
Southeast Storm Sewer (Original Amount \$693,209)						
	0.00	0	693,209	0	693,209	11,553
Total OPWC Loans		181,348	693,209	29,373	845,184	40,926

(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

<u>Business-Type Activities</u> (continued)	Interest Rate	Restated Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Due Within One Year
<u>OWDA Loans</u>						
#2735 Raw Water Line (Original Amount \$480,881)	2.00%	\$159,411	\$0	\$21,443	\$137,968	\$21,872
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	2,567,409	0	123,871	2,443,538	126,361
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	587,630	0	48,900	538,730	50,865
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,400,517	0	43,714	1,356,803	45,471
#4090 Cheshire (Original Amount \$1,232,112)	3.98	1,000,196	0	31,219	968,977	32,476
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	1,800,890	0	56,211	1,744,679	58,470
#4732 WWTP Bio-Solids (Original Amount \$2,762,322)	3.20	2,240,731	0	115,690	2,125,041	119,798
#4873 Water Tank Rehabilitation (Original Amount \$679,864)	4.61	536,181	0	28,004	508,177	29,310
#5176 WWTP Improvement Design (Original Amount \$85,355)	3.20	3,405	554	3,959	0	0
#7195 Cyanotoxin Testing (Original Amount \$18,267)	0.00	0	18,267	18,267	0	0
#6273 WWTP Influent Upgrade (Original Amount \$655,098)	2.57	582,147	0	37,896	544,251	0
Total OWDA Loans		<u>10,878,517</u>	<u>18,821</u>	<u>529,174</u>	<u>10,368,164</u>	<u>484,623</u>
AMP Ohio Payable - JV 2		653,024	0	212,554	440,470	213,145
AMP Ohio Payable		777,290	12,316	57,798	731,808	57,798
Compensated Absences Payable		481,180	45,749	23,723	503,206	104,503
Total Business-Type Activities		<u>\$22,067,508</u>	<u>\$806,564</u>	<u>\$1,676,622</u>	<u>\$21,197,450</u>	<u>\$1,755,995</u>

General Obligation Bond Anticipation Notes

On July 30, 2015, the City issued \$677,000 in unvoted general obligation bonds to acquire a fire truck and two street trucks. The bonds matured on July 29, 2016.

2007 Electric Improvement General Obligation Bonds

On December 21, 2007, the City issued \$8,952,000 in unvoted general obligation bonds to retire the Electric Improvement Loan, in the amount of \$4,927,000, and to upgrade an electric substation and the related distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on January 15, 2023. As of December 31, 2015, all of the proceeds have been spent.

2011 Electric Improvement General Obligation Bonds

On October 27, 2011, the City issued \$2,500,000 in unvoted general obligation bonds to improve the City's electric distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on December 1, 2021. As of December 31, 2015, the City had unspent proceeds, in the amount of \$1,269,397.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

Net Pension Liability

The City pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 14 to the basic financial statements.

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, Sewer, and Storm Water enterprise funds to the extent resources are available.

OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for improvements to water and sewer lines and upgrades to the City's water and sewer treatment plants. OWDA loans are payable solely from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the loans (on completed projects for which amortization schedules are available) is \$12,890,977. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$427,569 and \$397,382, respectively. Total net revenues for the Water and Sewer enterprise funds were \$573,047 and \$309,747, respectively.

Police and Fire Liability

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

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

Compensated Absences Payable

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

AMP Ohio Payable - JV2

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



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

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 \$451,439. Principal paid during 2015 was \$212,554. The Electric enterprise fund had a net loss for 2015.

AMP Ohio Payable

The City of Galion is a member of American Municipal Power (AMP) and a participant in the American Municipal Power Generating Station Project (AMPGS). This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share of the project was 8,000 kW of a total capacity of 771,281 kW, giving the City a 1.04 percent share of the project.

The AMPGS project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. As a result of a March 31, 2014, legal ruling, the AMP Board of Trustees on April 15, 2014, and the AMPGS participants on April 16, 2014, approved the collection of the impaired costs and provided the participants with an estimate of their liability.

The City's estimated share of the impaired costs at March 31, 2014, was \$1,148,904. The City received a credit of \$361,799 related to the AMPGS costs deemed to have future benefit for the project participant. Additional costs have been incurred for interest and legal fees of \$21,767 and payments were made of \$77,064 leaving a net impaired cost estimate of \$731,808. The City is reporting a payable to AMP in its business-type activities and in its Electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line of credit interest and legal fees) or amounts received related to the project may result in a future liability to the City. These amounts will be recorded as they become estimable.

The City is paying its liability to AMP by making monthly payments over a fifteen year period. The liability should be paid in full during 2028.

The City's legal debt margin was \$10,203,396 at December 31, 2015.

The Portland Way South project funded by an OPWC loan has not been completed. The amortization schedule for the repayment of this loan will not be available until the project is completed and, therefore, is not included in the following schedule.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**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				
	OPWC Loans	Police and Fire Pension		Capital Loan	
	Principal	Principal	Interest	Principal	Interest
2016	\$13,087	\$3,591	\$4,460	\$33,825	\$7,747
2017	13,087	3,745	4,306	34,837	6,736
2018	13,087	3,904	4,147	35,878	5,694
2019	13,086	4,074	3,977	36,951	4,622
2020	0	4,248	3,803	38,056	3,517
2021-2025	0	24,138	16,117	79,521	3,625
2026-2030	0	29,789	10,466	0	0
2031-2035	0	32,361	3,502	0	0
	<u>\$52,347</u>	<u>\$105,850</u>	<u>\$50,778</u>	<u>\$259,068</u>	<u>\$31,941</u>

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

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

Year	Business-Type Activities		
	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2016	\$855,000	\$291,805	\$40,926
2017	888,000	254,038	52,480
2018	921,000	214,524	52,480
2019	958,000	173,201	43,073
2020	995,000	129,920	33,662
2021-2025	2,077,000	125,989	148,870
2026-2030	0	0	115,535
2031-2035	0	0	115,535
2036-2040	0	0	115,535
2041-2045	0	0	115,535
2046	0	0	11,553
	<u>\$6,694,000</u>	<u>\$1,189,477</u>	<u>\$845,184</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

Year	OWDA Loans		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2016	\$484,623	\$308,230	\$270,943	\$5,699
2017	500,745	300,187	285,123	5,270
2018	517,449	284,323	57,798	0
2019	534,750	267,893	57,798	0
2020	552,674	250,874	57,798	
2021-2025	2,881,631	980,616	288,990	0
2026-2030	2,760,335	519,358	153,828	0
2031-2035	1,591,706	155,583	0	0
	<u>\$9,823,913</u>	<u>\$3,067,064</u>	<u>\$1,172,278</u>	<u>\$10,969</u>

**NOTE 19 - FUND BALANCE**

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

Fund Balance	General	Police and Fire Levy	Other Governmental Funds
Nonspendable for:			
Materials and Supplies Inventory	\$0	\$0	\$84,697
Prepaid Items	17,799	0	6,531
Unclaimed Monies	16,004	0	0
Total Nonspendable	<u>33,803</u>	<u>0</u>	<u>91,228</u>
Restricted for:			
Airport Improvements	0	0	23,204
Depot Improvements	0	0	1,888
Drug Enforcement	0	0	63,569
Economic Development and Rehabilitation	0	0	1,092,797
Park Improvements	0	0	204,548
Park Operations	0	0	217,217
Police and Fire Operations	0	299,644	5,801
Street Construction and Maintenance	0	0	755,602
Total Restricted	<u>0</u>	<u>299,644</u>	<u>2,364,626</u>
Assigned for:			
Projected Budget Shortage	801,805	0	0
Unpaid Obligations	23,077	0	0
Total Assigned	<u>824,882</u>	<u>0</u>	<u>0</u>
Unassigned (Deficit)	<u>4,912,965</u>	<u>0</u>	<u>(122,316)</u>
Total Fund Balance	<u>\$5,771,650</u>	<u>\$299,644</u>	<u>\$2,333,538</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 20 - INTERFUND TRANSFERS**

During 2015, the General Fund made transfers to the other governmental funds and to the Water, Sewer, Electric, and Storm Water enterprise funds, in the amount of \$1,913,008, \$85,710, \$79,272, \$84,726, and \$21,084, respectively, to subsidize various programs in other funds.

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

The Water enterprise fund made transfers to other governmental funds, in the amount of \$27,302, to move receipts as debt payments came due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$44,543, to move receipts as debt payments came due.

The Storm Water enterprise fund transferred capital assets to the Water and Sewer enterprise funds, in the amount of \$7,780 and \$11,670, respectively.

**NOTE 21 - EGBERT M. FREESE FOUNDATION**

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

The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2015, the Foundation's investments consisted of the following:

	Fair Value
Equities	\$5,712,565
Fixed Income	2,782,321
Alternative Income	175,826
Other Assets	562,203
Cash Equivalents	237,512
	<u>\$9,470,427</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 22 - JOINT VENTURES**

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

The City is a participant, with twenty-one other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$12,577 to the joint venture in 2015 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 \$23,760 at December 31, 2015. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**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, 2015, the City met its debt coverage obligation.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 22 - JOINT VENTURES** (continued)

JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The project consists of 138.65 MW of distributed generation (of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. During 2011, AMP-Ohio retired the remaining balance of the bonds; however, the City is still responsible for paying the remainder of their obligation for this debt to AMP-Ohio. The City's net obligation for these bonds at December 31, 2015, was \$440,470 (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 \$711,618 at December 31, 2015. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**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, 419 Harding Way West, Galion, Ohio 44833.

**NOTE 24 - RELATED ORGANIZATION**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2015**

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**NOTE 25 - FISCAL EMERGENCY**

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

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan in March 2005. This plan was subsequently updated in December 2005, April 2007, April 2008, December 2009, December 2010, December 2011, December 2012, December 2013, December 2014, and December 2015.

The more significant steps taken by the City to alleviate the fiscal emergency conditions were initial staff reductions and 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). The City has eliminated all deficit cash balances and, if able to correct all issues outlined in the Report on Accounting Methods, may be released from fiscal emergency in 2017.

**NOTE 26 - CONTINGENT LIABILITIES**

**A. Litigation**

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

**B. Federal and State Grants**

For the period January 1, 2015, to December 31, 2015, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

**NOTE 27 - SUBSEQUENT EVENT**

On July 27, 2016, the City issued bond anticipation notes, in the amount of \$1,288,200; \$708,200 to partially retire notes previously issued for the purchase of vehicles and \$580,000 to acquire equipment for the sewer treatment plant. The notes have an interest rate of 1.4 percent and mature on July 27, 2017.

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City of Galion  
 Required Supplementary Information  
 Schedule of the City's Proportionate Share of the Net Pension Liability  
 Ohio Public Employees Retirement System - Traditional  
 Last Two Years (1)

	2014	2013
City's Proportion of the Net Pension Liability	0.02308100%	0.02308100%
City's Proportionate Share of the Net Pension Liability	\$2,783,827	\$2,720,949
City's Covered Employee Payroll	\$2,829,850	\$2,549,462
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	98.37%	106.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Galion  
 Required Supplementary Information  
 Schedule of the City's Proportionate Share of the Net Pension Liability  
 Ohio Police and Fire Pension Fund  
 Last Two Years (1)

	2014	2013
City's Proportion of the Net Pension Liability	0.098331800%	0.098331800%
City's Proportionate Share of the Net Pension Liability	\$5,093,998	\$4,789,067
City's Covered Employee Payroll	\$1,925,161	\$1,819,529
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	264.60%	263.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.20%	73.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the City's measurement date which is the prior year end.

City of Galion  
 Required Supplementary Information  
 Schedule of the City's Contributions  
 Ohio Public Employees Retirement System - Traditional Plan  
 Last Three Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$358,075	\$339,582	\$331,430
Contributions in Relation to the Contractually Required Contribution	<u>(358,075)</u>	<u>(339,582)</u>	<u>(331,430)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Employee Payroll	\$2,983,957	\$2,829,850	\$2,549,462
Contributions as a Percentage of Covered Employee Payroll	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

City of Galion  
 Required Supplementary Information  
 Schedule of the City's Contributions  
 Ohio Police and Fire Pension Fund  
 Last Ten Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$423,223	\$411,512	\$332,016	\$246,879
Contributions in Relation to the Contractually Required Contribution	<u>(423,223)</u>	<u>(411,512)</u>	<u>(332,016)</u>	<u>(246,879)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Employee Payroll	\$1,980,560	\$1,925,161	\$1,819,529	\$1,628,314
Contributions as a Percentage of Covered Employee Payroll	21.37%	21.38%	18.25%	15.16%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$259,288	\$241,626	\$235,803	\$221,306	\$204,894	\$183,959
<u>(259,288)</u>	<u>(241,626)</u>	<u>(235,803)</u>	<u>(221,306)</u>	<u>(204,894)</u>	<u>(183,959)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,705,198	\$1,598,142	\$1,561,527	\$1,461,063	\$1,349,387	\$1,294,231
15.21%	15.12%	15.10%	15.15%	15.18%	14.21%

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428 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

104 South Sugar St.  
St. Clairsville, OH 43950  
740.695.1569

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

September 15, 2016

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 15, 2016, wherein we noted the City was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor. We also noted the City adopted Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

***Internal Control Over Financial Reporting***

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

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

***...“bringing more to the table”***

Tax– Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll

Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



***Internal Control Over Financial Reporting (Continued)***

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

***Compliance and Other Matters***

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 15, 2016.

***Purpose of this Report***

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



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





# Dave Yost • Auditor of State

CITY OF GALION

CRAWFORD COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
NOVEMBER 22, 2016