

CITY OF GALION, OHIO
CRAWFORD COUNTY

AUDITED GENERAL PURPOSE FINANCIAL
STATEMENTS AND
AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

City Council
City of Galion
301 Harding Way East
Galion, OH 44833

We have reviewed the Independent Auditor's Report of the City of Galion, Crawford County, prepared by Nagel, Weigand & Company, LLC., for the audit period January 1, 2002 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 3, 2003

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CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

ELECTED OFFICIALS
AS OF DECEMBER 31, 2002

<u>Elected Officials/Title</u>	<u>Term of Office</u>
Joe Kleinknecht Council President	01/01/02 - 12/31/05
Dennis Little Council Vice-President	01/01/00 - 12/31/03
Sharon Barnes Council Member	01/01/00 - 12/31/03
Don Diosi Council Member	01/01/00 - 12/31/03
Pauline Eaton Council Member	01/01/02 - 12/31/05
Fred Smith Council Member	01/01/02 - 12/31/05
Heath Watkins Council Member	01/01/02 - 12/31/05

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 2002

<u>Personnel</u>	<u>Title</u>
Phil Honsey	City Manager
Bill Bauer	Director of Finance
Dean Cobern	Electrical Distribution Superintendent
George Ayers	Water/Sewer Operations Superintendent
Leslie Spring	Street Superintendent
William Nedolast	Building Inspector
Rick Shifley	Police Chief
Robert Keyes	Fire Chief
Garland Gledhill	Clerk of Council
Reese F. Mills	Law Director
David Keller	Assistant Law Director

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Surety</u>	<u>Amount</u>	<u>Period Covered</u>
Western Surety Company	\$50,000	07/01/01 - 07/01/04

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

INDEX OF FUNDS

GOVERNMENTAL FUND TYPES:

General Fund Class:

General Fund

Special Revenue Fund Class:

Street Construction, Maintenance and Repair Fund

State Highway Fund

Street Improvement Fund

Airport Fund

Community Development Block Grant Fund

Community Development Block Grant Escrow Fund

Police Pension Fund

Fire Pension Fund

Debt Service Fund Class:

Bond Retirement Fund

PROPRIETARY FUND TYPES:

Enterprise Fund Class:

Water Operating Fund

Water Improvement Fund

Sewer Operating Fund

Sewer Improvement Fund

Electric Operating Fund

Electric Improvement Fund

Utility Deposit Fund

Internal Service Fund Class:

Self Insurance Fund

FIDUCIARY FUND TYPES:

Expendable Trust:

Egbert M. Freese Foundation

ACCOUNT GROUPS:

General Fixed Assets

General Long-Term Obligations

Nagel, Weigand & Company, LLC

Independent Auditor's Report

City Manager
Members of City Council
City of Galion, Ohio

We have audited the accompanying general-purpose financial statements of the City of Galion, Ohio, as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Galion, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

September 19, 2003

Nagel, Weigand & Company, LLC

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>ASSETS AND OTHER DEBITS</u>			
Assets			
Equity in Pooled Cash & Cash Equivalents	\$ 103,881	\$ -	\$ 10,131
Cash & Cash Equivalents in Segregated Accounts	900	-	-
Receivables (Net of Allowance for Uncollectible):			
Taxes	1,273,140	74,488	117,940
Accounts	62,125	-	-
Interfund	2,559,015	450,453	-
Accrued Interest	193	-	-
Due from Other Funds	-	-	-
Due from Other Governments	265,123	171,548	2,491
Loans Receivable	-	119,868	-
Prepaid Expenditures	20,458	-	-
Inventory	35,050	44,563	-
Unamortized Debt Issue Costs	-	-	-
Investment in Joint Ventures	-	-	-
Fixed Assets, Net	-	-	-
Restricted Assets:			
Equity in Pooled Cash & Cash Equivalents	-	-	-
Cash & Cash Equivalent in Segregated Accounts	-	415,986	-
Cash & Cash Equivalent with Fiscal Agents	-	-	-
Investments	-	-	-
Amount Available in Debt Service Fund	-	-	-
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-
Total Assets and Other Debits	\$ 4,319,885	\$ 1,276,906	\$ 130,562

The notes to the general purpose financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust And Agency	General Fixed Assets	General Long-Term Obligations	(Memo- randum Only)
\$ -	\$ 3,948	\$ -	\$ -	\$ -	\$ 117,960
1,200	-	-	-	-	2,100
-	-	-	-	-	1,465,568
1,630,582	-	-	-	-	1,692,707
3,652,258	-	-	-	-	6,661,726
-	-	28,687	-	-	28,880
-	64,357	-	-	-	64,357
-	-	-	-	-	439,162
-	-	-	-	-	119,868
-	-	-	-	-	20,458
1,149,013	-	-	-	-	1,228,626
81,398	-	-	-	-	81,398
2,258,582	-	-	-	-	2,258,582
28,319,183	-	-	9,382,125	-	37,701,308
197,727	-	-	-	-	197,727
-	-	-	-	-	415,986
403,469	-	350,220	-	-	753,689
-	-	7,367,422	-	-	7,367,422
-	-	-	-	10,131	10,131
-	-	-	-	1,596,352	1,596,352
\$ 37,693,412	\$ 68,305	\$ 7,746,329	\$ 9,382,125	\$ 1,606,483	\$ 62,224,007

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
AS OF DECEMBER 31, 2002
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities, Equity, and Other Credits</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 218,307	\$ 59,035	\$ -
Interfund Payable	-	4,311,218	-
Retainage Payable	-	-	-
Accrued Interest Payable	5,872	8,456	-
Accrued Wages Payable	138,713	23,736	-
Due to Other Funds	31,800	6,826	-
Due to Other Governments	32,977	5,785	-
Deferred Revenue	796,243	546,934	120,431
Claims Payable	-	-	-
Deposits Held and Due to Others	-	-	-
Capital Leases Payable	-	-	-
Accrued Interest Payable	-	-	-
General Obligation Notes Payable	375,000	540,000	-
Bonds Payable	-	-	-
Premium on Bonds Payable	-	-	-
Capital Leases Payable	-	-	-
Police & Firemen's Pension Liability	-	-	-
Compensated Absences Payable	39,343	3,528	-
	<u>1,638,255</u>	<u>5,505,518</u>	<u>120,431</u>
<u>Total Liabilities</u>			
<u>Equity and Other Credits</u>			
Investment in General Fixed Assets	-	-	-
Contributed Capital	-	-	-
Retained Earnings	-	-	-
Fund Balances:			
Reserved for Encumbrances	353,851	16,803	-
Reserved for Inventory	35,050	44,563	-
Reserved for Prepaid Expenditures	20,458	-	-
Reserved for Debt Service	-	-	10,131
Reserved for Loan Receivable	-	119,868	-
Unreserved - Undesignated	2,272,271	(4,409,846)	-
	<u>2,681,630</u>	<u>(4,228,612)</u>	<u>10,131</u>
<u>Total Equity and Other Credits</u>			
<u>Total Liabilities, Equity, and Other Credits</u>			
	<u>\$ 4,319,885</u>	<u>\$ 1,276,906</u>	<u>\$ 130,562</u>

The notes to the general purpose financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals
Enterprise	Internal Service	Trust And Agency	General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$ 1,311,278	\$ -	\$ -	\$ -	\$ -	\$ 1,588,620
2,350,508	-	-	-	-	6,661,726
76,056	-	-	-	-	76,056
144,778	-	-	-	-	159,106
84,198	-	-	-	-	246,647
25,731	-	-	-	-	64,357
104,226	-	-	-	196,880	339,868
-	-	-	-	-	1,463,608
-	68,305	-	-	-	68,305
197,727	-	-	-	-	197,727
171,643	-	-	-	-	171,643
2,033	-	-	-	-	2,033
14,201,972	-	-	-	77,490	15,194,462
2,779,067	-	-	-	465,000	3,244,067
41,619	-	-	-	-	41,619
239,769	-	-	-	282,869	522,638
-	-	-	-	141,056	141,056
446,630	-	-	-	443,188	932,689
22,177,235	68,305	-	-	1,606,483	31,116,227
-	-	-	9,382,125	-	9,382,125
7,660,101	-	-	-	-	7,660,101
7,856,076	-	-	-	-	7,856,076
-	-	-	-	-	370,654
-	-	-	-	-	79,613
-	-	-	-	-	20,458
-	-	-	-	-	10,131
-	-	-	-	-	119,868
-	-	7,746,329	-	-	5,608,754
15,516,177	-	7,746,329	9,382,125	-	31,107,780
\$ 37,693,412	\$ 68,305	\$ 7,746,329	\$ 9,382,125	\$ 1,606,483	\$ 62,224,007

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Revenues</u>			
Local Taxes	\$ 3,736,902	\$ 66,227	\$ 68,388
Intergovernmental	1,166,057	600,568	13,314
Charges for Services	2,216,082	-	-
Fines, Licenses and Permits	61,807	-	-
Investment Income	12,128	30,067	-
Rent	2,700	60,185	-
Contributions	268,000	-	-
Miscellaneous	91,402	22,793	-
Total Revenues	<u>7,555,078</u>	<u>779,840</u>	<u>81,702</u>
<u>Expenditures</u>			
<u>Current:</u>			
Security of Persons and Property	3,120,820	1,163,955	-
Public Health Services	295,047	-	-
Leisure Time Activities	869,131	50,313	-
Community Environment	-	421,898	-
Transportation	-	1,344,812	-
General Government	2,620,617	-	2,557
Capital Outlay	247,408	49,161	-
Debt Service	12,360	41,181	78,812
Total Expenditures	<u>\$ 7,165,383</u>	<u>\$ 3,071,320</u>	<u>\$ 81,369</u>

The notes to the general purpose financial statements are an integral part of this statement.

Fiduciary Fund Types	Totals
Expendable Trust	(Memorandum Only)
\$ -	\$ 3,871,517
-	1,779,939
-	2,216,082
-	61,807
(914,015)	(871,820)
-	62,885
-	268,000
-	114,195
(914,015)	7,502,605
-	4,284,775
-	295,047
-	919,444
381,470	803,368
-	1,344,812
-	2,623,174
-	296,569
-	132,353
\$ 381,470	\$ 10,699,542

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 389,695	\$ (2,291,480)	\$ 333
<u>Other Financing Sources (Uses):</u>			
Other Financing Sources	72,140	-	-
Inception of Capital Lease	247,408	49,161	-
Total Other Financing Sources (Uses)	319,548	49,161	-
Excess (Deficit) of Revenues and Other Financing Sources Over/(Under) Expenditures & Other Financing Uses	709,243	(2,242,319)	333
Fund Balances - January 1, 2002	1,976,241	(1,994,106)	9,798
Increase (Decrease) in Reserve for Inventory	(3,854)	7,813	-
Fund Balances - December 31, 2002	\$ 2,681,630	\$ (4,228,612)	\$ 10,131

The notes to the general purpose financial statements are an integral part of this statement.

Fiduciary Fund Types Expendable Trust	Totals (Memorandum Only)
\$ (1,295,485)	\$ (3,196,937)
-	72,140
-	296,569
-	368,709
(1,295,485)	(2,828,228)
9,041,814	9,033,747
-	3,959
\$ 7,746,329	\$ 6,209,478

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	General Fund		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
<u>Revenues</u>			
Local Taxes	\$ 4,684,121	\$ 3,694,183	\$ (989,938)
Intergovernmental	594,051	1,223,891	629,840
Charges for Services	424,270	2,173,914	1,749,644
Fines, Licenses and Permits	141,423	61,189	(80,234)
Investment Income	12,128	12,128	-
Rent	-	2,700	2,700
Contributions	-	268,000	268,000
Miscellaneous	107,973	94,217	(13,756)
Total Revenues	<u>5,963,966</u>	<u>7,530,222</u>	<u>1,566,256</u>
<u>Expenditures</u>			
<u>Current:</u>			
Security of Persons and Property	3,959,041	3,570,883	388,158
Public Health Services	376,902	298,029	78,873
Leisure Time Activities	288,130	828,851	(540,721)
Community Environment	-	-	-
Transportation	-	-	-
General Government	632,258	2,589,950	(1,957,692)
Capital Outlay	247,408	247,408	-
Debt Service	103,514	103,514	-
Total Expenditures	<u>\$ 5,607,253</u>	<u>\$ 7,638,635</u>	<u>\$ (2,031,382)</u>

The notes to the general purpose financial statements are an integral part of this statement.

Special Revenue Fund			Debt Service Fund		
Revised Budget	Actual	Variance-Favorable (Unfavorable)	Revised Budget	Actual	Variance-Favorable (Unfavorable)
\$ 129,302	\$ 66,227	\$ (63,075)	\$ 100,000	\$ 104,808	\$ 4,808
1,129,952	974,678	(155,274)	10,000	13,314	3,314
-	-	-	-	-	-
-	-	-	-	-	-
30,067	30,067	-	-	-	-
69,341	60,185	(9,156)	-	-	-
-	-	-	-	-	-
886,338	726,278	(160,060)	-	-	-
2,245,000	1,857,435	(387,565)	110,000	118,122	8,122
500,000	1,163,955	(663,955)	-	-	-
-	-	-	-	-	-
-	50,313	(50,313)	-	-	-
166,159	385,053	(218,894)	-	-	-
1,671,129	1,347,642	323,487	-	-	-
-	-	-	-	2,557	(2,557)
49,161	49,161	-	-	-	-
621,083	630,769	(9,686)	411,920	415,232	(3,312)
\$ 3,007,532	\$ 3,626,893	\$ (619,361)	\$ 411,920	\$ 417,789	\$ (5,869)

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	General Fund		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 356,713	\$ (108,413)	\$ (465,126)
<u>Other Financing Sources / (Uses):</u>			
Other Financing Sources	92,034	72,140	(19,894)
Proceeds of Notes	75,000	75,000	-
Inception of Capital Lease	-	247,408	247,408
Operating Transfers - In	-	-	-
Operating Transfers - Out	(470,000)	-	470,000
Total Other Financing Sources (Uses)	(302,966)	394,548	697,514
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures & Other Financing Uses	53,747	286,135	232,388
Fund Balances - January 1, 2002	1,792,064	1,792,064	-
Prior Year Encumbrances Appropriated	220,739	220,739	-
Fund Balances - December 31, 2002	\$ 2,066,550	\$ 2,298,938	\$ 232,388

The notes to the general purpose financial statements are an integral part of this statement.

Special Revenue Fund			Debt Service Fund		
Revised Budget	Actual	Variance-Favorable (Unfavorable)	Revised Budget	Actual	Variance-Favorable (Unfavorable)
\$ (762,532)	\$ (1,769,458)	\$ (1,006,926)	\$ (301,920)	\$ (299,667)	\$ 2,253
-	-	-	-	-	-
540,000	540,000	-	300,000	300,000	-
-	-	-	-	-	-
360,000	-	(360,000)	-	-	-
-	-	-	-	-	-
900,000	540,000	(360,000)	300,000	300,000	-
137,468	(1,229,458)	(1,366,926)	(1,920)	333	2,253
(2,684,821)	(2,684,821)	-	9,798	9,798	-
27,763	27,763	-	-	-	-
\$ (2,519,590)	\$ (3,886,516)	\$ (1,366,926)	\$ 7,878	\$ 10,131	\$ 2,253

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Total All Funds		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
<u>Revenues</u>			
Local Taxes	\$ 4,913,423	\$ 3,865,218	\$ (1,048,205)
Intergovernmental	1,734,003	2,211,883	477,880
Charges for Services	424,270	2,173,914	1,749,644
Fines, Licenses and Permits	141,423	61,189	(80,234)
Investment Income	42,195	42,195	-
Rent	69,341	62,885	(6,456)
Contributions	-	268,000	268,000
Miscellaneous	994,311	820,495	(173,816)
Total Revenues	8,318,966	9,505,779	1,186,813
<u>Expenditures</u>			
<u>Current:</u>			
Security of Persons and Property	4,459,041	4,734,838	(275,797)
Public Health Services	376,902	298,029	78,873
Leisure Time Activities	288,130	879,164	(591,034)
Community Environment	166,159	385,053	(218,894)
Transportation	1,671,129	1,347,642	323,487
General Government	632,258	2,592,507	(1,960,249)
Capital Outlay	296,569	296,569	-
Debt Service	1,136,517	1,149,515	(12,998)
Total Expenditures	\$ 9,026,705	\$ 11,683,317	\$ (2,656,612)

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES, BUDGET - ACTUAL (BUDGETARY BASIS)
ALL GOVERNMENTAL AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Total All Funds		
	Revised Budget	Actual	Variance- Favorable (Unfavorable)
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ (707,739)	\$ (2,177,538)	\$ (1,469,799)
 <u>Other Financing Sources / (Uses):</u>			
Other Financing Sources	92,034	72,140	(19,894)
Proceeds of Notes	915,000	915,000	-
Inception of Capital Lease	-	247,408	247,408
Operating Transfers - In	360,000	-	(360,000)
Operating Transfers - Out	(470,000)	-	470,000
Total Other Financing Sources (Uses)	897,034	1,234,548	337,514
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures & Other Financing Uses	189,295	(942,990)	(1,132,285)
Fund Balances - January 1, 2002	(882,959)	(882,959)	-
Prior Year Encumbrances Appropriated	248,502	248,502	-
Fund Balances - December 31, 2002	\$ (445,162)	\$ (1,577,447)	\$ (1,132,285)

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise Fund	Internal Service Fund	Totals (Memorandum Only)
<u>Operating Revenues</u>			
Charges for Services	\$ 10,652,927	\$ 1,526,432	\$ 12,179,359
Total Operating Revenues	10,652,927	1,526,432	12,179,359
<u>Operating Expenses</u>			
Personal Services	1,892,747	-	1,892,747
Materials and Supplies	649,290	-	649,290
Contractual Services	7,891,716	1,526,871	9,418,587
Depreciation	1,071,099	-	1,071,099
Employee Fringe Benefits	1,199,619	-	1,199,619
Total Operating Expenses	12,704,471	1,526,871	14,231,342
Operating Income (Loss)	(2,051,544)	(439)	(2,051,983)
<u>Nonoperating Revenue (Expenses):</u>			
Intergovernmental Revenue	10,721	-	10,721
Interest Income	5,402	439	5,841
Gain on Disposal of Fixed Assets	204	-	204
Loss on Disposal of Fixed Assets	(7,342)	-	(7,342)
Interest and Fiscal Charges	(472,557)	-	(472,557)
Investment in Joint Venture	(127,949)	-	(127,949)
Total Nonoperating Revenue (Expenses)	(591,521)	439	(591,082)
Net Loss	(2,643,065)	-	(2,643,065)
Depreciation on Fixed Assets Acquired by Contributed Capital	115,443	-	115,443
Retained Earnings - January 1, 2002, Restated	10,383,698	-	10,383,698
Retained Earnings - December 31, 2002	7,856,076	-	7,856,076
Contributed Capital - January 1, 2002	7,775,544	-	7,775,544
Depreciation on Fixed Assets Acquired by Contributed Capital	(115,443)	-	(115,443)
Contributed Capital - December 31, 2002	7,660,101	-	7,660,101
Fund Equity - December 31, 2002	\$ 15,516,177	\$ -	\$ 15,516,177

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise Fund	Internal Service Fund	Totals (Memorandum Only)
	<u> </u>	<u> </u>	<u> </u>
<u>Cash Flows from Operating Activities:</u>			
Operating Loss	\$ (2,051,544)	\$ (439)	\$ (2,051,983)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,071,099	-	1,071,099
<u>(Increase) Decrease in Assets:</u>			
Accounts Receivable	(213,612)	-	(213,612)
Inventory	(37,945)	-	(37,945)
Due from Other Funds	-	32,497	32,497
<u>Increase (Decrease) in Liabilities:</u>			
Accounts Payable	128,235	-	128,235
Retainage Payable	(24,377)	-	(24,377)
Accrued Wages and Benefits	13,464	-	13,464
Due to Other Funds	(12,744)	-	(12,744)
Due to Other Governments	13,862	-	13,862
Claims Payable	-	(37,042)	(37,042)
Deposits Held and Due to Others	6,533	-	6,533
Compensated Absences Payable	94,473	-	94,473
	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by (used in) Operating Activities	<u>(1,012,556)</u>	<u>(4,984)</u>	<u>(1,017,540)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Proceeds from Debt Issue	12,043,487	-	12,043,487
Principal Paid on Bonds and Notes	(6,263,577)	-	(6,263,577)
Proceeds from Capital Leases	237,592	-	237,592
Principal Paid on Capital Leases	(84,084)	-	(84,084)
Acquisition of Capital Assets	(4,021,190)	-	(4,021,190)
Intergovernmental Revenue	10,721	-	10,721
Interest Paid	(348,990)	-	(348,990)
	<u> </u>	<u> </u>	<u> </u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>1,573,959</u>	<u>-</u>	<u>1,573,959</u>

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF GALION, OHIO
CRAWFORD COUNTY
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002
(Continued)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Totals (Memorandum Only)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Receipt from Prior Year Interfund Receivable	887,716	-	887,716
Loan from other funds	2,350,508	-	2,350,508
Loan made to other Funds	<u>(3,652,258)</u>	<u>-</u>	<u>(3,652,258)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(414,034)</u>	<u>-</u>	<u>(414,034)</u>
<u>Cash Flows from Investing Activities:</u>			
Interest Received	<u>5,402</u>	<u>439</u>	<u>5,841</u>
Net Increase (Decrease) in Cash and Cash Equivalents	152,771	(4,545)	148,226
Cash and Cash Equivalents - January 1, 2002	<u>449,625</u>	<u>8,493</u>	<u>458,118</u>
Cash and Cash Equivalents - December 31, 2002	<u>\$ 602,396</u>	<u>\$ 3,948</u>	<u>\$ 606,344</u>

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Galion, Ohio, (the "City") was incorporated in 1842 under the laws of the State of Ohio. The City's population is approximately 11,859 people within an area of about 5 square miles. The City now operates under a charter adopted January 1, 1986, which provides for a Council-Manager form of government.

The reporting entity consists of the (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or is obligated in some manner for the debt of the organization.

The financial statements of the reporting entity allow the users to distinguish between the primary government and its component units. Most component units are included in the financial reporting entity by discrete presentation (one or more columns separate from the financial data of the primary government). Some component units are so intertwined with the primary government that they are reported in a manner similar to the balances and transactions of the primary government itself (this method is known as blending).

The primary government of the City of Galion includes public safety (police and fire protection), public services, health (including ambulance services), recreation and development. In addition, the City maintains and operates its own electric distribution, water, and sewer utility systems.

The Egbert M. Freese Foundation (the Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times shall be operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all the liabilities, all the assets of the Foundation shall be transferred to the City of Galion or its successor. It is intended that the Foundation shall allocate its funds in such a way that one-eighth of the income shall be used for college scholarships for worthy high school graduates in the City, with the remaining income to be used generally for the upkeep or improvement of City facilities or for any other purposes suitable to the memory of Egbert M. Freese. The Foundation will be recorded as an expendable trust fund on the City's financial statements since the nature and significance of the Foundations relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The blending method will be used. The Foundation does not issue separate financial statements.

Health care services are provided by the Galion Community Hospital. The Court system is provided through Crawford County. The Hospital and Court are separate entities whose financial statements are not included herein.

The Galion City School District, located within the boundaries of the City of Galion, is a political subdivision of the State of Ohio. The District operates under the direction of an elected school board, which exercises its own budgetary, taxing and fiscal management authority. Accordingly, the Galion City School District is not considered a part of the City and its operations will not be reflected in the City's financial statements.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. REPORTING ENTITY (Continued)

The Galion Public Library is an association library established under the rules of the Ohio State Library Board. Since the City is not responsible for authorizing budgets, supervising accounting functions and financing deficits, the library will not be considered a component unit of the reporting entity.

The City is a participant in two joint ventures. These organizations are the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) and the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV-2). These organizations are presented in Note 17 to the general purpose financial statements.

B. BASIS OF PRESENTATION

Fund Accounting: The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net available expendable financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Funds within each major category are grouped by fund type in the general purpose financial statements. The following funds and account groups are used by the City:

Governmental Fund Types: Governmental Funds are those through which general governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Funds) are accounted for through Governmental Funds. The following are the City's Governmental Fund Types:

General Fund - to account 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 Charter of the City of Galion and/or the general laws of Ohio.

Special Revenue Funds – to account for the proceeds of specific revenue resources (other than expendable trusts, or for major capital projects) that are legally restricted to expenditures for specified purposes. The uses and limitations of each special revenue fund are specified by City ordinances or federal and state statutes.

Debt Service Fund - to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

Proprietary Fund Types: Proprietary Funds are used to account for the City's ongoing activities that are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The following is the City's Proprietary Fund Types:

Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis (water, sewer, and electric) be financed or recovered primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - to account for the financing of goods and services provided by one department to other departments of the City on a cost reimbursement basis.

Fiduciary Funds: Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. The City does not have any agency funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds using a modified accrual basis of accounting as discussed in Note 1(C).

Account Groups: Account groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term obligations. The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

General Fixed Assets Account Group - to account for fixed assets other than those accounted for in the proprietary funds. Capital outlays in funds other than Proprietary Funds are recorded as expenditures of those funds at the time of purchase and are subsequently recorded for control purposes in the General Fixed Assets Account Group.

General Long-Term Obligations Account Group - to account for all unmatured long-term obligations of the City, except those accounted for in the enterprise funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Fund Types and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary Funds are accounted for using a flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the operation of these funds are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Fund Type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Proprietary funds use the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Governmental and Expendable Trust Funds use the modified accrual basis of accounting. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The available period for the City is sixty days after year-end. On the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability is incurred, with the exception of unmatured interest on general long-term debt which is recognized when due, and accrued vacation and sick leave which is recorded when payable from current available financial resources. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal 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. Revenue considered to be both measurable and available at year-end include income taxes, state-levied locally shared taxes (including gasoline taxes and motor vehicle license fees), federal and state grants and subsidies, charges for services, licenses and permits and fees, fines and forfeitures, and interest. Other revenues are recorded as revenue when received, as they are generally not measurable until actually received.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Delinquent property taxes and property taxes for which there was an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, are recorded as deferred revenues. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

Under the guidelines of Governmental Accounting Standards Board Statement No. 20, the City has elected to apply Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

D. BUDGETARY PROCESS

All funds, other than agency funds, legally are required to be budgeted and appropriated. The major documents prepared are the statement of fund activities, the certificate of estimated resources, and the appropriation ordinance. 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 resolution 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 and department level.

Budgetary information for the Egbert M. Freese Expendable Trust Fund is not reported because it is not included in the entity for which the "appropriated budget" is adopted.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Director of Finance. The amounts reported as the revised budget amounts on the budgetary statements reflect the amounts on the certificate of estimated resources (there were no amendments) in effect at the time final appropriations were passed by City Council.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETARY PROCESS (Continued)

A temporary appropriation ordinance to control expenditures or expenses, as appropriate, may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance may be amended during the year as new information becomes available provided that total appropriations do not exceed estimated resources. The City considers any ordinance authorizing the expenditure of money a supplemental appropriation ordinance unless stated otherwise. The revised budget amounts that appear in the budgetary statements represent the appropriated budget amounts and all supplemental appropriations, including amounts automatically carried forward from prior years.

At the end of the fiscal year, all unexpended and unencumbered balances of operating appropriations revert to the fund from which the appropriation was initially made, where they become subject to future appropriation. The unexpended balances of capital projects appropriations continue until the project is completed at which time any remaining appropriation reverts to the Fund from which the appropriation was originally made.

Annual appropriation ordinances are adopted for all funds.

Budgeted Level of Expenditures: It is the City's policy to formally budget an appropriate those funds which derive their primary revenues from levied taxes, other governments or user charges.

Budget control is exercised at the department total level. Reported budgeted amounts are as originally adopted and amended by appropriation resolutions of the Council. Departmental budgets are represented by appropriations and can only be modified by Council resolution. Unencumbered appropriations lapse at year end. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriations adopted by the Council.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On a GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and reported in the notes to the financial statements for Enterprise Funds.

Lapsing of Appropriations: At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

E. CASH AND CASH EQUIVALENTS

Cash balances of the City's funds (except cash in segregated accounts or cash held by a trustee or held by fiscal and escrow agents) are pooled and invested in short-term investments in order to provide improved cash management. Each fund type's share of the pool is presented on the balance sheet in the account "Equity in pooled cash and cash equivalents." For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, funds included within the cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents. Negative balances incurred in pooled cash at year-end are treated as interfund receivables of the fund making the advance and interfund payables of the deficit fund.

Cash and cash equivalents that are held separately within departments of the City are recorded on the balance sheet as "cash and cash equivalents in segregated accounts."

The Egbert M. Freese Foundation (the Foundation) component unit utilizes a financial institution as a trustee to invest

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. CASH AND CASH EQUIVALENTS (Continued)

its money. One of the investments is a mutual fund, which is recorded on the balance sheet as a restricted asset, "Cash and Cash Equivalents with Fiscal Agents". The other investments made for the Foundation are also recorded as restricted assets. The Foundation is recorded as an expendable trust fund on the City's financial statements. See the Restricted Cash section of Note 4 Deposits and Investments for more information on restricted cash.

Investments are recorded at fair value, except for non-negotiable certificates of deposit and repurchase agreements, which are reported at cost. Fair value is based on quoted market price or current share price.

F. RESTRICTED ASSETS

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

See the Restricted Cash section of Note 4 Deposits and Investments for more information on restricted cash.

G. INTERFUND RECEIVABLES/PAYABLES

During the course of normal operations the City has numerous transactions between funds. The most significant are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and nonroutine transfers of equity between funds and the transfer of residual balances of the discontinued funds or projects to the general fund, capital projects funds, or debt service funds (when financed with debt proceeds) are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

H. LOANS RECEIVABLE

Loans receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients.

I. INVENTORY OF SUPPLIES

Inventory of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

J. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2002 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.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. UNAMORTIZED DEBT ISSUANCE COSTS

In governmental fund types, debt issuance costs are expended in the current period. Debt issuance costs for proprietary fund types are deferred and amortized over the term of the debt. Issuance costs are recorded as deferred charges.

L. FIXED ASSETS AND DEPRECIATION

The fixed asset values were initially determined at December 31, 1986, assigning original acquisition costs for the majority of assets. For certain assets where the original costs were not practicably determinable, other methods were used to estimate and assign costs. During the initial development of the fixed asset records, it was not practical to determine the source of the fixed asset financing, other than for certain capital contributions in the Enterprise Funds. Additionally, at the present time, it is not practical to allocate the individual fixed assets within the individual functions or programs.

Public domain ("infrastructure") general fixed assets consisting of streets and sidewalks are not capitalized by the City since they are immovable and of value only to the City. Electric Fund and Water and Sewer Fund infrastructures were determined in 1986 and 1995, respectively, and are all capitalized.

The City has elected not to record depreciation in the General Fixed Assets Account Group in accordance with generally accepted accounting principles for governmental entities. Depreciation is recorded in the Proprietary Fund Types. It is calculated on a straight-line basis over the estimated useful lives of the related assets.

Interest expenses associated with the financing of fixed assets has not been recorded by the City as a component of the cost of these fixed assets for assets constructed prior to 1986. In accordance with the Financial Accounting Standards Board Statement No. 62 (Capitalization of Interest Cost in Situations Involving Certain Gifts and Grants), the City intends to capitalize the interest cost of borrowings made to finance fixed assets, net of the related interest earned on interest-bearing investments acquired with the proceeds of borrowings.

M. CONTRIBUTED CAPITAL

Proprietary fund type contributed capital represents contributions made prior to 2001 by the City and other governments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. Depreciation on assets acquired or constructed with contributed resources is expensed and closed to contributed capital at year-end. Capital contributions received after December 31, 2000 are recorded as revenues in the proprietary funds and are reported as increases in retained earnings based on guidelines established by GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions".

N. 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 that 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 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 employees' wage rates at year-end, taking into consideration any limits specified in the City's manpower and 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.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. COMPENSATED ABSENCES (Continued)

The current portion of unpaid compensated absences for Governmental Fund Types is the amount expected to be paid using available expendable financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the General Long-Term Obligations Account Group. For the proprietary funds, compensated absences are expensed when earned and the entire amount of compensated absences is reported as a fund liability.

O. ACCRUED AND LONG-TERM LIABILITIES

In general, Governmental Fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, pension obligations, and special termination benefits are reported as a liability in the General Long-Term Obligations Account Group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are considered not to have used current available expendable resources. Bonds, capital leases and long-term debt are recognized as a liability of the General Long-Term Obligations Account Group until due. Long-term debt and other obligations financed by Proprietary Funds are reported as liabilities in the appropriate Proprietary Funds.

Under Ohio law, a debt retirement fund may be created and used for the payment of tax and revenue anticipation notes. Generally accepted accounting principles require the reporting of the liability in the funds that received the proceeds. To comply with GAAP reporting requirements, the City's debt service fund has been split among the appropriate funds. Debt service fund resources used to pay both principal and interest have also been allocated accordingly.

P. RESERVES OF FUND EQUITY

The City records reservations for portions of fund balance that are segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for prepaid expense, debt service, inventory, loans receivable, and encumbrances related to governmental fund types.

Q. INTERFUND TRANSACTIONS

During the course of normal operations the City has numerous transactions between funds. The most significant are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and nonroutine permanent transfers of equity between funds and the transfer of residual balances of the discontinued funds or projects to the general fund or debt service funds (when financed with debt proceeds) are classified as residual equity transfers.

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed. Quasi-external transactions are accounted for as revenues and expenditures, or expenses.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. INTERFUND TRANSACTIONS (Continued)

The City allocates to the Enterprise Funds an indirect cost percentage of the salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended December 31, 2002 the City allocated \$1,603,019 for such services. It was treated as a quasi-external transaction.

R. ESTIMATES

The preparation of GPFS in conformity with GAAP 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.

S. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

Total columns on the general purpose financial statements are captioned "Total Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. ACCOUNTABILITY AND COMPLIANCE

A. ACCOUNTABILITY

FUND BALANCE DEFICITS

Fund balance at December 31, 2002, included the following individual fund deficits:

Street Construction, Maintenance and Repair Fund	\$2,369,619
Street Improvement Fund	879,577
Community Development Block Grant Escrow Fund	171,239
Airport Fund	228,040
Police Pension Fund	563,083
Fire Pension Fund	615,123
Electric Fund	775,808

The Street Improvement Fund deficit fund balance is partially the result of the City obtaining a short-term note payable of \$400,000 to resurface certain municipal streets. The Airport Fund deficit fund balance is partially the result of the City obtaining a short-term note payable of \$140,000 to purchase and improve the City's airport. These deficits will be alleviated when the bonds are issued or when the notes are paid. The rest of the Airport Fund deficit fund balance is anticipated to be recovered through rent charges and transfers from the General Fund. The deficits in the Police Pension Fund and the Fire Pension Fund are anticipated to be recovered by transfers from the General Fund. The Street Construction, Maintenance and Repair (SCMR) Fund and Street Improvement Fund deficit fund balances are anticipated to be recovered through transfers from the General Fund and intergovernmental revenues.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

3. BUDGETARY BASIS OF ACCOUNTING

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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budgetary basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to when the liability is incurred (GAAP basis).
3. Proceeds from and principal payments on bond anticipation notes are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
4. Outstanding year-end encumbrances are treated as expenditure equivalents (budget basis) rather than as a reservation of fund balance (GAAP basis).

A reconciliation of the results of operations for the year from the GAAP basis to the budget basis follows:

	<u>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</u>		
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>
GAAP Basis	\$ 709,243	\$ (2,242,319)	\$333
Net Revenue Accruals	11,564	1,028,434	-
Net Expenditure Accruals	(20,714)	70,178	-
Proceeds of Notes	75,000	540,000	300,000
Debt Principal Retirement	(100,000)	(600,000)	(325,000)
Excess (Deficiency) of Revenues Over Expenditures into Financial Statement Fund Types	(25,000)	-	25,000
Encumbrances	<u>(363,958)</u>	<u>(25,751)</u>	<u>-</u>
Budget Basis	<u>\$ 286,135</u>	<u>\$(1,229,458)</u>	<u>\$333</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. DEPOSITS AND INVESTMENTS

The City maintains a cash pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in pooled cash and cash equivalents."

Legal Requirements - State statutes require the classification of monies held by the City into three categories. Monies held by the blended component unit (the Egbert M. Freese Fund) were not subject to this requirement.

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the municipality. 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.

Category 2 consists of "inactive" monies, those monies not required for use within the current two-year period of designation of depositories. Inactive monies 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.

Category 3 consists of "interim" monies, 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 monies may be invested or deposited in the following securities:

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

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

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

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. DEPOSITS AND INVESTMENTS (Continued)

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

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

At year-end, the City had \$2,100 in petty cash that is included on the balance sheet as part of "Cash and cash equivalents in segregated accounts".

At year-end, the City's share of the assets comprising the JV2 Debt Service Reserve Fund was \$229,793. This money is held by the bond trustee in a pooled account with that of other entities and, therefore, cannot be classified by risk under GASB Statement 3. See the Restricted Cash section of this Note for more information on the JV2 Debt Service Reserve Fund.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year-end, the carrying amount of the City's deposits was \$703,349 and the bank balance was \$1,578,877. Of the bank balance, \$300,000 was covered by federal depository insurance and \$1,278,877 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.

Investments - Investment procedures are restricted by provisions of the City Code and Ohio Revised Code. Monies held by the component unit were not subject to this requirement. Investment earnings of the component unit were allocated to the component unit. All other investment earnings are allocated to the General Fund.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. Investments in mutual funds are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. The City's investments carried at fair value as of December 31, 2002 are:

	<u>Category 3</u>	<u>Fair value</u>
Equities (common stock)	\$4,402,996	\$4,402,996
Treasuries	404,927	404,927
Agencies	307,463	307,463
Corporate Bonds	865,084	865,084
Government Mortgage Backed Securities	1,014,510	1,014,510
Corporate Mortgage Backed Securities	53,426	53,426
Foreign Bonds	50,885	50,885
Corporate Asset Backed Securities	268,121	268,121
Other Assets	10	10
Repurchase Agreement	202,000	202,000
Mutual Funds	-	350,220
	<u>\$7,569,422</u>	<u>\$7,919,642</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

4. DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents and investments on the combined balance sheet is based on the criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the City's cash management pool. Reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classifications of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement – 9	\$1,487,462	\$7,367,422
Cash held by bond trustee	(229,793)	-
Cash on hand	(2,100)	-
Mutual Funds	(350,220)	350,220
Repurchase Agreement	<u>(202,000)</u>	<u>202,000</u>
GASB Statement – 3	<u>\$703,349</u>	<u>\$7,919,642</u>

Restricted Cash – Restricted assets include those assets comprising the Debt Service Reserve Fund, which is established and maintained pursuant to the JV2 Bonds Trust Agreement. At December 31, 2002, the investments were held in money market funds and cash equivalents with a cost and market value of \$4,197,475. Galion's share of this fund is 5.47%, or \$229,793. The fund is held by the bond trustee. In accordance with the trust agreement, amounts in the Debt Service Reserve Fund may be used in the event of nonpayment of JV2 bond debt service by any participant or to make any portion of the final debt service payment amount due on January 1, 2021.

The City entered into a capital lease to purchase electric fund equipment for \$171,643 in 2002. The money was placed in escrow in 2002. No equipment was ever purchased. The money was used to pay part of the capital lease liability in 2003. At year-end, the escrow account had a cash balance of \$173,676.

The City has received Community Development Block Grants in the past for the purpose of making business loans in the community. Cash and cash equivalents in segregated accounts of \$415,986 of this type of CDBG money was held by the City at December 31, 2002.

Only the Board of Trustees of the Egbert M. Freese Foundation (the Foundation) has the power and authority to appropriate for distribution funds held by the Foundation. The Foundation is recorded as an Expendable Trust Fund on the City's financial statements. See Note 1(A). Cash and cash equivalents of \$350,220 and investments of \$7,367,422 are held by the Foundation at December 31, 2002. They are reported as restricted assets on the balance sheet. Utility deposits from customers are classified as restricted assets because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

5. TAXES

Property Tax - Property taxes include amounts levied against all real and public utility property and tangible personal property (used in business) located in the City. Real property taxes are levied each January 1 on the assessed value as of the prior January 1, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. A revaluation of all property is required to be completed not less than every six years. A triennial update was completed in 2000. The assessed value upon which the 2002 levy was based was \$123,076,491. The tax rate applicable to 2002 was 7.55 mills.

Real Property – 2001 Valuation	
Residential/Agricultural	\$ 81,943,130
Commercial/Industrial	21,596,830
Tangible Personal Property – 2002 Valuation	
General	17,155,071
Public Utilities	<u>2,381,460</u>
Total Valuation	<u>\$123,076,491</u>

CITY OF GALION, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

5. TAXES (Continued)

The Crawford County Treasurer collects property tax on behalf of all taxing districts within Crawford County including the City of Galion. Taxes are payable to the County in two equal installments in January and July and, if not paid, become delinquent after December 31 of the year they are due. The Crawford County Auditor periodically remits to the City its portion of the taxes collected. Such collections are available only to pay current period liabilities.

Collection of delinquent property taxes is the responsibility of the County. The County Auditor's records as to delinquencies are maintained on a total county basis. The delinquent property taxes related to an individual subdivision within the County are not practically determinable from the County records. Accordingly, delinquent property taxes are only reflected in the accompanying financial statements to the extent they are collected.

City Income Tax - The City levies an income tax of 1.50% on the gross salaries, wages and other personal service compensation earned by residents of the City and to the earnings of nonresidents working within the City. Residents of the City are granted a full credit for taxes paid to other Ohio Municipalities. This tax also applies to the net income of businesses operating within the City. A portion of the City's income tax (.39%) is to be used exclusively for increased police protection services, increased fire protection services, fire suppression equipment and structures, and an ambulance subsidy. A .11% portion of the income tax is to be used exclusively for the purposes of recreation and acquisition of real estate.

The receipts of the City income tax and the administrative costs associated with their collection are accounted for in the General Fund. Income tax receipts, net of the related administrative costs, are disbursed and appropriated 100% to the General Fund in accordance with City Ordinance #86-5593, #89-5749, and #95-6139.

6. RECEIVABLES

Receivables at December 31, 2002 consisted of taxes; accounts (billings for user charged services, including unbilled utility services); interfund; accrued interest; services charged to other funds; loans receivable; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible except for accounts receivable related to utility services. A summary of accounts receivable related to utility services is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total Enterprise Funds</u>
Accounts Receivable	\$278,185	\$308,922	\$1,421,219	\$2,008,326
Less: Allowance for uncollectibles	<u>(59,413)</u>	<u>(42,631)</u>	<u>(275,700)</u>	<u>(377,744)</u>
Net Accounts Receivable	<u>\$218,772</u>	<u>\$266,291</u>	<u>\$1,145,519</u>	<u>\$1,630,582</u>

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
General Fund	
Estate tax	\$11,437
Homestead and Rollback	23,482
Fines and Forfeitures	4,117
Local Government	23,819
Local Government Revenue Assistance	200,854
Beer and Liquor Permits	165
State Grants	<u>1,249</u>
Total General Fund	<u>265,123</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

6. RECEIVABLES (Continued)

Special Revenue Funds	
Permissive Motor Vehicle License Tax	6,990
Gasoline Tax	110,234
Motor Vehicle License Tax	50,054
Homestead and Rollback	<u>4,270</u>
Total Special Revenue Funds	<u>171,548</u>
Debt Service Fund	
Homestead and Rollback	<u>2,491</u>
Total Debt Service Fund	<u>2,491</u>
Total All Funds	<u>\$439,162</u>

Loans receivable represent low interest loans granted to eligible City businesses under the Federal Community Development Block Grant program. The current portion of the \$119,868 Community Development Block Grant Loans is \$64,702.

7. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2002 consisted of the following individual fund receivables and payables:

<u>Fund Type</u>	<u>RECEIVABLE</u> <u>Due from Other Funds</u>	<u>PAYABLE</u> <u>Due to Other Funds</u>
General Fund	\$ -	\$31,800
Special Revenue Funds	-	6,826
Enterprise Funds	-	25,731
Internal Service Funds	<u>64,357</u>	-
Total	<u>\$64,357</u>	<u>\$64,357</u>

<u>Fund Type</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$2,559,015	\$ -
Special Revenue Funds	450,453	4,311,218
Enterprise Funds	<u>3,652,258</u>	<u>2,350,508</u>
Total	<u>\$6,661,726</u>	<u>\$6,661,726</u>

The Internal Service Fund's due from other funds receivable is the result of services provided by the Self Insurance Fund to other funds. Negative balances incurred in pooled cash at year-end are treated as interfund receivables of the fund making the advance and interfund payables of the deficit fund.

8. FIXED ASSETS

Costs in the amount of \$1,000 or more associated with the construction and acquisition of general fixed assets are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group at historical cost or estimated historical cost.

Fixed assets reflected in the enterprise funds are stated at historical cost or estimated historical cost and are updated for the cost of additions and retirements during the year.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

8. FIXED ASSETS(Continued)

A summary of the changes in general fixed assets during 2002 is as follows:

	Balance <u>1/01/02</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/02</u>
Land	\$ 997,104	\$ 127,244	\$ -	\$1,124,348
Land Improvements	2,575,817	94,923	-	2,670,740
Buildings	2,002,719	51,296	-	2,054,015
Equipment	2,732,282	883,490	82,750	3,533,022
Construction in Progress	<u>60,000</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
Total	<u>\$8,367,922</u>	<u>\$1,156,953</u>	<u>\$142,750</u>	<u>\$9,382,125</u>

A summary of the enterprise funds' fixed assets at December 31, 2002 follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Land	\$ 51,145	\$ 229,146	\$ 78,889	\$ 359,180
Land Improvements	386,848	255,136	7,427	649,411
Utility Plant				
In Service	4,809,612	9,072,979	9,619,653	23,502,244
Machinery & Equipment	2,076,275	669,189	1,593,949	4,339,413
Utility Line in Service	9,199,708	8,146,593	8,621,750	25,968,051
Construction in Progress	<u>1,274,741</u>	<u>9,727</u>	<u>163,158</u>	<u>1,447,626</u>
Totals	17,798,329	18,382,770	20,084,826	56,265,925
Less Accumulated				
Depreciation	<u>11,073,354</u>	<u>7,367,302</u>	<u>9,506,086</u>	<u>27,946,742</u>
Net Property, Plant and				
Equipment	<u>\$ 6,724,975</u>	<u>\$ 11,015,468</u>	<u>\$10,578,740</u>	<u>\$28,319,183</u>

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciable lives used for property items within each property classification are as follows:

<u>Classification</u>	<u>Life</u>
Utility plant in service	40-80 Years
Improvements other than buildings	20-50 Years
Machinery and equipment	5-20 Years
Utility Line in Service	25-50 Years

9. DEBT OBLIGATIONS

A listing of the changes in the debt of the City for the year ended December 31, 2002 follows:

	Balance <u>1/01/02</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/02</u>
General Obligation Bonds:				
7.50% to 7.75% Library				
Bonds, due through 2010	\$505,000	\$ -	\$40,000	\$465,000
OPWC Note:				
0% Ohio Public Works Commission				
Street Improvements Promissory				
Note, due through 2006	<u>87,176</u>	<u>-</u>	<u>9,686</u>	<u>77,490</u>
Total General Long-Term Debt	<u>\$592,176</u>	<u>\$ -</u>	<u>\$49,686</u>	<u>\$542,490</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

9. DEBT OBLIGATIONS (Continued)

The City has pledged its full faith and credit as collateral for the above tax supported General Obligation Bonds and Note.

	<u>Balance</u> <u>1/01/02</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/02</u>
Enterprise Debt:				
9.625% General Obligation WWTP Bonds, due through 2004	\$ 300,000	\$ -	\$100,000	\$ 200,000
5.50% General Obligation Sewer System Improvement Bonds, due through 2002	100,000	-	100,000	-
4.00% to 5.25% Revenue Obligation Electric (JV2) Improvement Bonds, due through 2021	2,669,124	-	90,057	2,579,067
0% Ohio Public Works Commission Cherry Street Sanitation Sewer Promissory Note, due through 2014	322,886	-	13,454	309,432
2% Ohio Water Development Authority Water Promissory Note, due through 2022	318,910	-	6,563	312,347
2% Ohio Water Development Authority Sewer Promissory Note, due through 2022	83,841	-	1,725	82,116
0% Ohio Public Works Commission Railroad Street Waterline Promissory Note, due through 2022	71,104	-	1,778	69,326
2% Ohio Water Development Authority WTP Promissory Note, due through 2032	<u>1,385,264</u>	<u>2,143,487</u>	<u>-</u>	<u>3,528,751</u>
Total Enterprise Debt	<u>5,251,129</u>	<u>2,143,487</u>	<u>313,577</u>	<u>7,081,039</u>
Total Long-Term Debt	<u>\$5,843,305</u>	<u>\$2,143,487</u>	<u>\$363,263</u>	<u>\$7,623,529</u>

The JV2 Revenue Bonds (See Note 17) are payable solely from the revenues of its municipal electric utility system. The City has pledged its full faith and credit as collateral for the other General Obligation Bonds. The Ohio Public Works Commission (OPWC) and Ohio Water Development Authority (OWDA) notes are payable from the revenues derived from the operations of the respective funds (water or sewer fund). The City has the ability to issue \$5.31 million of additional debt without obtaining voter approval.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

9. DEBT OBLIGATIONS (Continued)

A summary of the City's future debt service requirements for long-term debt follows:

Future Payments <u>Due In</u>	General Long-Term <u>Obligations Account Group</u>		<u>Enterprise Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2003	\$64,372	\$35,813	\$327,940	\$222,685
2004	64,372	32,437	333,853	206,989
2005	69,372	29,063	240,081	191,090
2006	74,374	25,187	246,626	184,596
2007	60,000	20,925	253,213	178,140
2008-2012	210,000	33,325	1,390,011	766,368
2013-2017	-	-	1,542,857	518,963
2018-2022	-	-	1,329,970	239,405
2023-2027	-	-	673,037	111,914
2028-2032	-	-	743,451	41,500
TOTAL	<u>\$542,490</u>	<u>\$176,750</u>	<u>\$7,081,039</u>	<u>\$2,661,650</u>

A summary of the short-term note activity for the year ended December 31, 2002 follows:

	<u>Interest Rate</u>	<u>Outstanding 1/01/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/02</u>
<u>General Fund</u>					
General Obligation:					
Park and Recreation Improvement	2.75%	\$ 325,000	\$ 300,000	\$ 325,000	\$ 300,000
Fire Truck Renovation	2.75%	100,000	75,000	100,000	75,000
<u>Special Revenue Fund</u>					
General Obligation:					
Airport	2.75%	150,000	140,000	150,000	140,000
Street Improvement	2.75%	450,000	400,000	450,000	400,000
<u>Proprietary Fund</u>					
General Obligation:					
Electric System Improvement	2.25%	5,500,000	5,500,000	5,500,000	5,500,000
Water System Improvement	2.75%	450,000	1,900,000	450,000	1,900,000
Sewer System Improvement	2.75%	-	1,500,000	-	1,500,000
Storm Water System Improvement	2.75%	-	1,000,000	-	1,000,000
Total Short-Term Notes Payable		<u>\$6,975,000</u>	<u>\$10,815,000</u>	<u>\$6,975,000</u>	<u>\$10,815,000</u>

All of the notes are bond anticipation notes. The electric system improvement notes are payable solely from the revenues of the City's electric system. All other notes are backed by the full faith and credit of the City. Although some of the enterprise fund notes are general obligations of the City, the practice has been to have the debt serviced by the revenues derived from the operations of the respective funds. The note liability is reflected in the fund that received the proceeds.

The electric system improvement notes are with American Municipal Power-Ohio, Inc. (AMP-Ohio). On the maturity date of the notes in November 2003, the City will pay AMP-Ohio from revenues of its electric system all interest due on the notes, plus an amount of principal as determined by the City. If AMP-Ohio is unable to refinance the notes, it shall give the City 60 days notice of such inability, and the City shall pay to AMP-Ohio all amounts necessary to retire such notes at maturity.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

10. LEASES

The City has entered into capital leases for equipment. New capital leases for the governmental fund types are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds that will be making the lease payments. Capital lease payments are reflected as debt service expenditures in the combined financial statements for the governmental fund types and as a reduction of the liability in the enterprise funds. General fixed assets consisting of equipment have been capitalized in the general fixed asset account group in the amount of \$296,569 and in the enterprise funds in the amount of \$401,266. These amounts represent the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group and in the enterprise fund. Principal payment in 2002 totaled \$13,700 in the governmental funds and \$84,084 in the enterprise fund.

The City entered into a capital lease to purchase electric fund equipment for \$171,643 in 2002. The money was placed in escrow in 2002. No equipment was ever purchased. The money was used to pay part of the capital lease liability in 2003.

	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Total Enterprise</u>
Property under Capital Lease	\$61,333	\$273,984	\$65,949	\$401,266
Less Accumulated Depreciation	<u>(2,360)</u>	<u>(18,309)</u>	<u>(1,649)</u>	<u>(22,318)</u>
Total December 31, 2002	<u>\$58,973</u>	<u>\$255,675</u>	<u>\$64,300</u>	<u>\$378,948</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2002:

<u>Year</u>	<u>GLTOAG</u>	<u>Enterprise</u>
2003	\$101,732	\$277,545
2004	99,267	96,309
2005	99,268	71,480
2006	<u>33,175</u>	<u>8,843</u>
Total	333,442	454,177
Less: Amount Representing Interest	<u>(50,573)</u>	<u>(42,765)</u>
Present Value of Net Minimum Lease Payments	<u>\$282,869</u>	<u>\$411,412</u>

The City is party to the following leases as lessor:

<u>Lessee</u>	<u>Property</u>	<u>Amount</u>
Various	Airport Hangars	\$4,148 per month
Galion City Board of Education	City Land Parcel	1 per year
Crawford County Commissioners	Municipal Government	225 per month
Galion Jaycees	Old Waterworks Plant	1 per year

The City's leasing operations include leasing of space for a courtroom to the Crawford County Commissioners for \$225 a month and leasing hangars at the municipal airport. The airport hangars are leased to various individuals and businesses for varying amounts. The leases are cancelable by either party upon thirty days of written notice.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three Enterprise Funds, which provide electric, water, and wastewater treatment/sewer services. The operations of these Funds are accounted for, financed and recorded in a manner similar to that of private enterprises whereby it is the City's intent that the costs of providing these goods or services be financed primarily through user charges.

Segment information for the year ended December 31, 2002, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Utility Deposit</u>	<u>Total Enterprise Fund</u>
Operating Revenues	\$7,323,735	\$1,513,350	\$1,815,842	\$ -	\$10,652,927
Operating Expenses	9,447,028	1,647,202	1,610,241	-	12,704,471
Depreciation Expense	539,109	235,923	296,067	-	1,071,099
Operating Income (Loss)	(2,123,293)	(133,852)	205,601	-	(2,051,544)
Nonoperating Revenue (Expense)	(427,090)	(84,065)	(80,366)	-	(591,521)
Net Income (Loss)	(2,550,383)	(217,917)	125,235	-	(2,643,065)
Capital Acquisition	930,083	2,931,126	216,475	-	4,077,684
Net Working Capital	(7,350,624)	(629,050)	11,007	-	(7,968,667)
 Total Assets	 11,473,135	 12,593,938	 13,428,612	 197,727	 37,693,412
Bonds and Other Long-Term Obligations (long-term portion):					
Notes and Bonds Payable	2,485,178	3,806,765	461,156	-	6,753,099
Capital Leases Payable	51,757	88,892	99,120	-	239,769
Compensated Absences	141,378	118,743	186,509	-	446,630
Total Fund Equity	(775,808)	6,449,023	9,842,962	-	15,516,177
Encumbrances Outstanding (Budget Basis)	472,630	109,406	297,669	-	879,705

12. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System (OPERS)

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in OPERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. The OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll, 8.55% to fund the pension and 5% to fund health care. The City's contributions to the OPERS to fund pension obligations for the years ended December 31, 2002, 2001, and 2000, were \$298,428, \$290,587, and \$205,810, respectively, equal to the required contributions for each year.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

12. DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (OP&F)

All City full-time uniformed police officers and full-time firefighters participate in OP&F, a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City is required to contribute 19.5 percent for police (11.75 percent was the portion used to fund pension obligations); and 24 percent for firefighters (16.25 percent was the portion used to fund pension obligations). Contributions are authorized by State statute. The City's contributions to the OP&F to fund pension obligations for the years ended December 31, 2002, 2001, and 2000, were \$236,567, \$199,864, and \$207,204, respectively, equal to the required contributions for each year.

13. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System (OPERS)

The OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund postretirement health care through their contributions to the OPERS. The 2002 employer contribution rate for local government employer units was 13.55 percent of covered payroll. The portion of the 2002 employer contribution rate that was used to fund health care for the year was 5% of covered payroll and amounted to \$174,519.

The following assumptions and calculations were based on the OPERS's latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.00 percent. An annual increase of 4.00 percent compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.00 percent annually.

Benefits are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The actuarial value of the OPERS's net assets available for OPEB at December 31, 2001 is \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

13. POSTEMPLOYMENT BENEFITS (Continued)

A. Ohio Public Employees Retirement System (OPERS) (Continued)

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

B. Ohio Police and Fire Pension Fund (OP&F)

OP&F provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50 percent and 7.75 percent of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation available, is 13,174 for Police and 10,239 for Firefighters. The City contribution made to fund postemployment benefits under the OP&F during 2002 was \$61,569 for police and \$68,305 for fire. OP&F's total health care expense for the year ended December 31, 2001, the date of the last actuarial valuation available, was \$122,298,771, which was net of member contributions of \$6,874,699.

The City is required to make payments to the OP&F to fund the City's accrued liability established at the time the City joined the Fund. The City paid \$8,051 in 2002 relating to this liability. The unpaid balance is payable in equal semi-annual installments of \$4,026 through the year 2035. This liability is recorded in the general long-term obligations account group of the City.

14. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws.

City employees earn and may accumulate vacation at varying rates depending on length of service. Vacation is accumulated on a bi-weekly basis. Employees are paid for 100 percent of earned unused vacation leave upon termination

Sick leave accumulates at the rate of 4.6 hours of sick leave for 80 hours of work completed. Employees shall be allowed unlimited accumulation of unused sick leave. All employees other than firefighters may convert their sick leave into cash only upon retirement or death with three years of service at the rate of 66 2/3 percent. Individuals other than firefighters leaving the employment of the City prior to retirement or at retirement with less than three years of service lose their accumulated sick leave. Firefighters may convert their sick leave into cash upon retirement or death with five years of service at rates established in various Negotiated Agreements. Firefighters sick leave will be converted at the rate of 25 percent if 700 or less hours have been accumulated but unpaid, at the rate of 33 percent if between 700 and 1,400 hours have been accumulated, and at the rate of 66 percent if more than 1,400 hours have been accumulated. The maximum number of hours that firefighters can convert is 3000 hours. A liability has been recognized in the accompanying financial statements for the vested portions of these sick and vacation leave amounts in the amount of \$932,689.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

15. RISK MANAGEMENT

Comprehensive -The City maintains comprehensive insurance coverage with Public Entities Pool of Ohio for employee liability, real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage, as well as coverage for uninsured and underinsured motorists. The maximum coverage for the vehicle policy is \$2,000,000 combined single limit of bodily injury and property damage for each occurrence, accident, or claim; and \$100,000 for uninsured and underinsured motorists.

Self-Insurance - On July 1, 1988, the City established a self-insurance program for medical benefits that is reported in the Self Insurance Fund (an internal service fund). This program is administered by an independent company, which furnishes verification, processing and payment services. A specific excess major medical reinsurance policy indemnifies the City for any amount over \$30,000 per individual or \$538,651 total paid in any fiscal year. The maximum this policy will pay is \$1,000,000 in any fiscal year. In accordance with GASB Statement No. 10, the total amount charged to other funds is equal to the total expenses of the Self Insurance Fund. The independent company also determines the estimated accrued liability for claims by examining 2003 payments and accruing all expenses incurred in 2002. Changes in the Funds claims liability amounts were as follows:

	Beginning Claims <u>Liability</u>	Current Year Claims And Changes in <u>Estimates</u>	Claim <u>Payments</u>	Ending Claims <u>Liability</u>
2001	\$95,613	\$946,284	\$936,550	\$105,347
2002	105,347	1,526,871	1,563,913	68,305

16. CONTINGENT LIABILITIES

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

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

17. INVESTMENT IN JOINT VENTURE WITH EQUITY INTEREST

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

The City is a participant with 20 other subdivisions within the State of Ohio in a joint venture for the purpose of providing electric power and energy to its participants on a cooperative basis. The Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1) was created for that purpose. The electric generating facilities of JV1, known as the Engle Units, are currently located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the 21 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 85 municipal electric systems. The JV1 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$10,787 to the joint venture in 2002 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the JV participants would be billed for their respective shares of the estimated shortfall.

The City's net investment and its share of the operating results of JV1 are reported in the City's Electric enterprise fund. The City's equity interest in JV1 was \$29,154 at December 31, 2002. The City's gain on investment was \$1,725 at December 31, 2002. Financial information for JV1 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219. The City is a participant with 35 other subdivisions within the State of Ohio in a joint venture for the purpose of providing supplemental reserve electric power and energy to its participants on a cooperative basis. The Ohio Municipal

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

17. INVESTMENT IN JOINT VENTURE WITH EQUITY INTEREST (Continued)

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

Electric Generation Agency Joint Venture 2 (JV2) was created for that purpose. On dissolution of the joint venture, the net assets of JV2 will be shared by the participants on a percentage basis. The JV2 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit, on a monthly basis, those costs incurred from using electricity generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$83,562 to the joint venture in 2002 for electricity.

Of the 36 participants, 16 are financing participants and 20 are non-financing participants. The City is a financing participant of the joint venture. The non-financing participants in JV2 contributed \$12,665,886 during the year ended December 31, 2001. On January 21, 2001, Amp-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to JV2. The difference between gross bond proceeds and net bond proceeds is attributable to funding the Debt Service Reserve Fund (See the Restricted Cash section of Note 4 Deposits and Investments), a bond premium, and bond issuance costs. The financing participants will pay their portion to a debt service reserve fund on a monthly basis. The City's obligation for these bonds at December 31, 2002 was \$2,579,067 (See Note 9). Payments are to be made solely from the revenues of the City's municipal electric utility system. The City's net investment and its share of the operating results of JV2 are reported in the City's Electric enterprise fund. The City's equity interest in JV2 was \$2,229,428 at December 31, 2002. The City's loss on investment in JV2 was \$129,674 at December 31, 2002. Financial information for JV2 may be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

C. Selected Information on Joint Ventures

The following is a summary of audited financial information of JV1 and JV2 for the year ended December 31, 2002:

	<u>JV1</u>	<u>JV2</u>
Total Assets	\$459,652	\$52,473,954
Total Liabilities	13,191	514,292
Members Equity	446,461	51,959,662
Total Revenues	175,759	2,308,497
Total Expenses	149,339	5,330,727
Excess Income over/(under) Expenses	26,420	(3,022,230)

The City's undivided ownership of JV1 and JV2 is 6.53 and 4.29 percent, respectively. The following table shows the major participants and percentage of ownership for the JV1 and JV2 projects:

<u>Participants</u>	<u>JV1</u>	<u>Participants</u>	<u>JV2</u>
	Percentage of Ownership		Percentage of Ownership
Cuyahoga Falls	21.05%	Hamilton	23.87%
Niles	17.71	Bowling Green	14.32
Wadsworth	11.24	Niles	11.49
Hudson	10.37	Cuyahoga Falls	7.46
Galion	6.53	Wadsworth	5.81
Oberlin	5.52	Painesville	5.22
Amherst	5.42	Dover	5.22
Hubbard	3.79	Galion	4.29
Columbiana	3.03	Amherst	3.73
Wellington	2.95	St. Marys	2.98
Other	<u>12.39</u>	Other	<u>15.61</u>
Total	<u>100.00</u>	Total	<u>100.00</u>

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

18. CHANGE IN ACCOUNTING PRINCIPLE

For 2002, the City has increased the threshold amount for capitalizing fixed assets: The threshold amount was increased from \$500 to \$1,000.

19. RESTATEMENT OF FUND EQUITY

Fixed assets and accumulated depreciation in the enterprise funds decreased due to the change in the threshold amount for capitalizing fixed assets. Fixed assets decreased \$109,596 and accumulated depreciation decreased \$91,713, for a net decrease of \$17,883.

Retained earnings in the enterprise funds decreased another \$6,222 due to prior year fixed assets disposals that were not discovered until this year.

The fixed assets reported in the general fixed assets account group decreased \$228,416 due to the change in the threshold amount for capitalizing fixed assets.

The City's fixed assets listings have not been properly maintained since 1990. The fixed asset listings for the general fixed asset account group (except land) were updated this year. We discovered \$183,680 of assets that should have been recorded as asset disposals in prior years. There was also \$55,832 worth of infrastructure fixed assets that were incorrectly capitalized in prior years.

It was discovered the City owed the EPA \$39,253 at December 31, 2001 as a result of a grant disallowance.

It was also discovered that the City is a participant with 20 other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The City's equity interest in JV1 was \$27,429 at December 31, 2001.

Additionally, it was discovered that the 2001 interest income on the debt service reserve fund for JV2 had not been recorded. The City's share was \$7,132.

These changes had the following effect on the general fixed assets account group as previously reported for the year ended December 31, 2001.

	General Fixed <u>Assets</u>
Investment in general fixed assets as previously reported	\$8,835,850
Change in threshold amount	(228,416)
Prior period fixed asset disposals	(183,680)
Infrastructure fixed assets	<u>(55,832)</u>
Restated Amount for the Year Ended December 31, 2001	<u>\$8,367,922</u>

These changes had the following effect on retained earnings as previously reported as of December 31, 2001.

	<u>Enterprise</u>
Retained Earnings as Previously Reported	\$10,412,495
Change in threshold amount	(17,883)
Prior period fixed asset disposals	(6,222)
Investment in JV1	27,429
2001 interest income on debt service reserve fund for JV2	7,132
Grant Disallowance	<u>(39,253)</u>
Restated Retained Earnings December 31, 2001	<u>\$10,383,698</u>

CITY OF GALION, OHIO
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2002

20. CONTRACTUAL COMMITMENTS

At December 31, 2002, the City had the following contractual commitment:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Completed</u>	<u>Contract Balance</u>
Thompson Electric	\$1,279,020	\$1,050,012	\$229,008

21. SUBSEQUENT EVENTS

On June 5, 2003 the City retired the various purpose bond anticipation notes in the amount of \$5,315,000. The notes had been issued for street improvements, water system improvements, fire truck renovations, airport improvements, parks and recreation improvements, water system improvements, sanitary sewer system improvements, and storm water system improvements, in the amounts of \$400,000, \$400,000, \$75,000, \$140,000, \$300,000, \$1,500,000, \$1,500,000, and \$1,000,000, respectively. The notes had an interest rate of 2.75%.

On June 5, 2003 the City issued various purpose bond anticipation notes in the amount of \$6,145,000. The notes were issued for street improvements, water system improvements, fire truck renovations, airport improvements, parks and recreation improvements, water system improvements, sanitary sewer system improvements, storm water system improvements, and Cheshire Estates Subdivision streets and easements improvements, in the amounts of \$350,000, \$350,000, \$50,000, \$120,000, \$275,000, \$1,500,000, \$1,500,000, \$1,000,000, and \$1,000,000, respectively. The notes had an interest rate of 1.625% and mature on June 3, 2004.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

STATUS OF PRIOR AUDIT CITATIONS AND RECOMMENDATIONS

The audit report for the period ending December 31, 2001 included various citations and recommendations. Each of these citations and recommendations have either been satisfied or corrected, or are reflected in the appropriate section of this report. Such citations and recommendations are denoted by an asterisk.

Nagel, Weigand & Company, LLC

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Manager
Members of City Council
City of Galion, Ohio

We have audited the financial statements of the City of Galion, Ohio, as of and for the year ended December 31, 2002, and have issued our report thereon dated September 19, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings as items 02-1, 02-2, 02-3 and 02-4. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more in the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated September 19, 2003.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 19, 2003

Nagel, Weigand & Company, LLC

CITY OF GALION
CRAWFORD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Galion.
2. No reportable conditions were disclosed during the audit of the financial statements of the City of Galion.
3. Four instances of noncompliance material to the financial statements of the City of Galion were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

02-1*

Ohio Revised Code Section 5705.39, stipulates that the total appropriations from a fund cannot exceed the estimated revenue available for expenditures, as certified by the budget commission. The City's appropriations exceeded the estimated revenue in the following funds:

	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<u>Special Revenue Funds</u>			
Street C, M, & R Fund	900,000	1,120,000	(220,000)
Street Improvement Fund	100,000	657,438	(557,438)
<u>Enterprise Funds</u>			
Electric Fund	9,500,000	17,730,096	(8,230,096)
Utility Deposit Fund	-	125,000	(125,000)

Additionally, the City did not receive the County Auditor's certificate stating that the total appropriations from each fund did not exceed the total estimated revenues. This could lead to the City purchasing items that it does not have the money to pay for them. It is recommended that the City ensures that appropriations do not exceed estimated revenue for the year.

**City of Galion
Crawford County**

02-2 *

Ohio Revised Code Section 5705.41(B), stipulates that no expenditure of money shall be made unless the funds have been appropriated. The City's expenditures exceeded appropriations in the following funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund	5,856,514	8,542,893	(2,686,379)
<u>Special Revenue Fund</u>			
Street Improvement Fund	657,438	678,878	(21,440)
CDBG Fund	166,159	239,275	(73,116)
CDBG Fund Escrow	-	145,777	(145,777)
<u>Debt Service Fund</u>			
Debt Retirement Fund	411,920	417,789	(5,869)
<u>Internal Service Fund</u>			
Health Insurance Fund	600,000	1,563,901	(963,901)

This could lead to the City spending more money than it has. It is recommended that the City does not expend money that has not been properly appropriated.

02-3 *

Ohio Revised Code Section 5705.40, states that any appropriations measure may be amended or supplemented as long as the entity complies with the same provisions of law as are used in making the original appropriation. The City passed amended appropriation ordinances without filing them with the County Auditor. It is recommended that that all amendments be filed with the County Auditor.

02-4 *

Ohio Revised Code Section 5705.36 (A)(1), requires that on or about the first day of each fiscal year, subdivisions and other taxing units are to certify to the County Auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any balance that existed at the end of the preceding year. The City was unable to verify that the required certificate was sent to the County Auditor. It is recommended that the City file the Certificate of Available Resources from all Available Sources with the County Auditor.

CITY OF GALION, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002

GENERAL COMMENTS

The audit report was reviewed with and acknowledged by the following officials on September 19, 2003:

Bill Bauer Finance Director

These officials were informed that they have five working days for the Auditor of State from the date of the post audit conference to respond to, or contest, in writing, the contents of this report. No such response was received.

City personnel were cooperative and available for questions and assistance during regular working hours.

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**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF GALION

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 20, 2003**