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**CITY OF GALION  
CRAWFORD COUNTY  
Regular Audit  
For the Year Ended December 31, 2016**

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- Association of Certified Anti - Money Laundering Specialists •





# Dave Yost • Auditor of State

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 Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

October 4, 2017

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**City of Galion  
Crawford County**

Table of Contents

TITLE	PAGE
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	16
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to Statement of Activities .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual - General Fund.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – Police and Fire Levy Special Revenue Fund .....	23
Statement of Fund Net Position – Proprietary Funds.....	24
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	28
Statement of Cash Flows – Proprietary Funds.....	30
Statement of Fiduciary Assets and Liabilities – Agency Funds.....	34
Notes to the Basic Financial Statements .....	35
Required Supplementary Information	
Schedule of the City's Proportionate Share of the Net Pension Liability - Ohio Public Employees Retirement System – Traditional Plan.....	85
Ohio Police and Fire Pension.....	86
Schedule of the City's Contributions - Ohio Public Employees Retirement System – Traditional Plan.....	87
Ohio Police and Fire Pension.....	88
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	91

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## INDEPENDENT AUDITOR'S REPORT

July 28, 2017

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

To the Members of Council:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Galion, Crawford County, Ohio, as of December 31, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparisons for the General and Police and Fire Levy Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note 26, on August 9, 2004, the City of Galion was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor. We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

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



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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2017, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

The discussion and analysis of the City of Galion's financial performance provides an overview of the City's financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2016 are as follows:

In total, the City's net position decreased 7 percent from the prior year. Governmental activities decreased 9 percent and business-type activities decreased 5 percent.

General revenues made up 76 percent of the total revenues for governmental activities in 2016, of which, 57 percent was provided through municipal income taxes, the most critical of the City's revenue sources.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net position and the statement of activities reflect how the City did financially during 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water, sewer, electric, and storm water operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounts for the City's self-insured program for employee dental and vision benefits.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2016 and 2015.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Assets</u>						
Current and Other Assets	\$9,733,393	\$10,543,329	\$15,773,913	\$19,873,534	\$25,507,306	\$30,416,863
Capital Assets, Net	18,370,099	18,571,101	30,723,067	28,929,099	49,093,166	47,500,200
Total Assets	28,103,492	29,114,430	46,496,980	48,802,633	74,600,472	77,917,063
<u>Deferred Outflows of Resources</u>						
Pension	2,137,534	855,547	1,022,185	293,835	3,159,719	1,149,382
<u>Liabilities</u>						
Current and Other Liabilities	521,441	384,488	2,455,634	1,858,609	2,977,075	2,243,097
Long-Term Liabilities						
Pension	8,052,767	6,263,207	2,445,946	1,614,618	10,498,713	7,877,825
Other Amounts	2,007,687	1,870,060	17,867,599	19,582,832	19,875,286	21,452,892
Total Liabilities	10,581,895	8,517,755	22,769,179	23,056,059	33,351,074	31,573,814
<u>Deferred Inflows of Resources</u>						
Pension	50,681	20,541	73,814	28,365	124,495	48,906
Other Amounts	367,343	359,921	0	0	367,343	359,921
Total Deferred Inflows of Resources	418,024	380,462	73,814	28,365	491,838	408,827
<u>Net Position</u>						
Net Investment in Capital Assets	17,090,168	17,480,211	13,942,925	11,750,735	31,033,093	29,230,946
Restricted	2,744,970	3,318,239	0	0	2,744,970	3,318,239
Unrestricted (Deficit)	(594,031)	273,310	10,733,247	14,261,309	10,139,216	14,534,619
Total Net Position	\$19,241,107	\$21,071,760	\$24,676,172	\$26,012,044	\$43,917,279	\$47,083,804

The net pension liability is the single largest liability reported by the City at December 31, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

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

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

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

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

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

Pension related changes noted in the above table for both governmental and business-type activities reflect a significant increase in deferred outflows due to an increase in the difference between projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the City's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

Aside from pension related changes, the only other change of significance for governmental activities was the decrease in current and other assets. There was a decrease in cash and cash equivalents of almost \$1.9 million. Of this amount, \$980,000 represents a loan to the Central Hotel Apartments (a revolving loan) which will not be repaid until 2020. This amount is offset by an increase in notes receivable. The remainder of the decrease in cash and cash equivalents reflects deficit spending.

For business-type activities, there was a significant decrease in current and other assets with most of this being cash and cash equivalents from the Electric Fund as the City continues ongoing construction/improvement of the electric distribution system. Resources were borrowed for this project in prior years and the City continues to spend down those resources. The increase in net capital assets and the investment in capital assets largely reflects this ongoing construction. The increase in current and other liabilities is primarily related to bond anticipation notes issued for a screw pump at the wastewater treatment plant. The decrease in other long-term liabilities represents scheduled debt payments.

Table 2 reflects the change in net position for 2016 and 2015.

Table 2  
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$1,163,331	\$1,357,309	\$15,689,213	\$15,918,824	\$16,852,544	\$17,276,133
Operating Grants, Contributions, and Interest	692,854	648,640	0	0	692,854	648,640
Capital Grants and Contributions	245,334	545,844	0	0	245,334	545,844
Total Program Revenues	<u>2,101,519</u>	<u>2,551,793</u>	<u>15,689,213</u>	<u>15,918,824</u>	<u>17,790,732</u>	<u>18,470,617</u>
General Revenues						
Property Taxes Levied for General Purposes	298,404	302,657	0	0	298,404	302,657
Property Taxes Levied for Police and Fire Pension	54,478	55,184	0	0	54,478	55,184
Municipal Income Taxes Levied for General Purposes	2,497,167	2,341,507	0	0	2,497,167	2,341,507
Municipal Income Taxes Levied for Police and Fire	2,223,155	2,084,230	0	0	2,223,155	2,084,230
Municipal Income Taxes Levied for Recreation	274,011	257,273	0	0	274,011	257,273
Other Local Taxes	424,794	512,444	0	0	424,794	512,444
Grants and Entitlements not Restricted to Specific Programs	217,082	239,828	0	0	217,082	239,828
Franchise Taxes	120,150	116,876	0	0	120,150	116,876
Interest	(43,225)	19,445	2,880	2,283	(40,345)	21,728
Other	542,021	795,383	153,484	181,372	695,505	976,755
Total General Revenues	<u>6,608,037</u>	<u>6,724,827</u>	<u>156,364</u>	<u>183,655</u>	<u>6,764,401</u>	<u>6,908,482</u>
Total Revenues	<u>8,709,556</u>	<u>9,276,620</u>	<u>15,845,577</u>	<u>16,102,479</u>	<u>24,555,133</u>	<u>25,379,099</u>

(continued)

**CITY OF GALION**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2016**  
**Unaudited**

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<u>Program Expenses</u>						
Security of Persons and Property						
Police	\$2,304,895	\$2,034,084	\$0	\$0	\$2,304,895	\$2,034,084
Fire	2,163,765	2,068,330	0	0	2,163,765	2,068,330
Public Health	572,801	531,235	0	0	572,801	531,235
Leisure Time Activities	719,640	524,838	0	0	719,640	524,838
Community Environment	49,201	33,212	0	0	49,201	33,212
Transportation	2,491,707	1,852,413	0	0	2,491,707	1,852,413
General Government	1,662,649	1,428,325	0	0	1,662,649	1,428,325
Interest and Fiscal Charges	20,554	17,540	0	0	20,554	17,540
Water	0	0	2,161,841	1,828,670	2,161,841	1,828,670
Sewer	0	0	2,094,259	2,181,906	2,094,259	2,181,906
Electric	0	0	12,771,323	13,008,586	12,771,323	13,008,586
Storm Water	0	0	709,023	550,481	709,023	550,481
Total Expenses	<u>9,985,212</u>	<u>8,489,977</u>	<u>17,736,446</u>	<u>17,569,643</u>	<u>27,721,658</u>	<u>26,059,620</u>
Increase (Decrease) in Net Position Before Transfers	(1,275,656)	786,643	(1,890,869)	(1,467,164)	(3,166,525)	(680,521)
Transfers	<u>(554,997)</u>	<u>(438,013)</u>	<u>554,997</u>	<u>438,013</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	(1,830,653)	348,630	(1,335,872)	(1,029,151)	(3,166,525)	(680,521)
Net Position Beginning of Year	<u>21,071,760</u>	<u>20,723,130</u>	<u>26,012,044</u>	<u>27,041,195</u>	<u>47,083,804</u>	<u>47,764,325</u>
Net Position End of Year	<u>\$19,241,107</u>	<u>\$21,071,760</u>	<u>\$24,676,172</u>	<u>\$26,012,044</u>	<u>\$43,917,279</u>	<u>\$47,083,804</u>

The above table reflects the revenues and expenses for operating the City for the past two years. For governmental activities, there was a 6 percent decrease in total revenues. The most significant change for program revenues was the decrease in capital grants and contributions. In the prior year, the City received grant resources from the Ohio Department of Transportation for improvements on Portland Way North. There was little change in overall general revenues.

There was a 18 percent increase in governmental activities expenses and largely related to the transportation program with road improvements. Note that police and fire operations account for 45 percent of the City's total expenses and the street department operations account for another 25 percent of total expenses.

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

By far, the electric distribution system is the City's largest utility as demonstrated by the costs to operate the system. There was little change in overall expenses.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Security of Persons and Property				
Police	\$2,304,895	\$2,034,084	\$2,269,569	\$1,995,481
Fire	2,163,765	2,068,330	1,647,465	1,437,000
Public Health	572,801	531,235	263,734	287,093
Leisure Time Activities	719,640	524,838	712,395	517,698
Community Environment	49,201	33,212	42,224	29,168
Transportation	2,491,707	1,852,413	1,592,109	589,034
General Government	1,662,649	1,428,325	1,335,643	1,068,170
Interest and Fiscal Charges	20,554	17,540	20,554	17,540
Total Expenses	<u>\$9,985,212</u>	<u>\$8,489,977</u>	<u>\$7,883,693</u>	<u>\$5,941,184</u>

While the dependence on general revenues to pay for the various services provided by the City is significant, program revenues in several of the programs provide for a considerable portion of the costs. For example, charges for services and operating grants provide for 24 percent of the costs of providing fire services. Charges for services include charges for local ambulance services as well as the amount charged to Polk Township for fire/ambulance services. Charges for services and operating grants provide for 54 percent of public health costs. Charges for services and various grants and contributions provide for 36 percent of transportation costs. The transportation program receives permissive motor vehicle license fees as well as motor vehicle and gas taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Police and Fire Levy special revenue fund. The General Fund experienced a 12 percent decrease in fund balance in 2016. Revenues decreased approximately \$254,000 and primarily charges for services revenue. However, there was a fairly similar decrease in expenditures, \$228,000. From an operating standpoint, there was an operating income as revenues exceeded expenditures. The reason for the decrease in fund balance is due to resources transferred to other funds to subsidize operations in those funds.

Fund balance in the Police and Fire Levy Fund almost doubled. While revenues and expenditures were similar to the prior year, revenues exceeded expenditures. The City is attempting to utilize the majority of these resources annually to fully use the voted levy proceeds for the intended purpose and to reduce the General Fund's contribution towards these services. Excess funds are intended to be reimbursed to the General Fund.



**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

**BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS**

The City's enterprise funds are the Water, Sewer, Electric, and Storm Water funds. As can be seen on the statement of revenues, expenses, and changes in fund net position, the Water, Sewer, and Electric funds had an operating loss for 2016.

There was a 6 percent decrease in net position in the Water Fund. Revenues were similar to the prior year; however, there was an increase in expenses. Personnel costs (salaries and benefits) increased with wage increases and health care costs and there was also a sizable increase due to the replenishment of materials and supplies.

Net position decreased 5 percent in the Sewer Fund due to a modest decrease in revenues and slight increase in expenses.

Net position decreased \$1.0 million in the Electric Fund. This fund also experienced a modest decrease in revenues and modest increase in expenses. The fund has been deficit spending for the past two years.

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

**BUDGETARY HIGHLIGHTS**

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute, including the annual appropriations ordinance which is effective the first day of January.

The City's most significant budgeted fund is the General Fund. For revenues, the increase from the original budget to the final budget was largely due to State provided resources and grants. Actual revenues were 8 percent lower than final budgeted amounts as actual revenues more closely mirrored the original budget. For expenditures, there was a 13 percent increase from the original budget to the final budget. Here again, actual expenditures were more in line with the original budget.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2016, was \$18,370,099 and \$30,723,067, respectively (net of accumulated depreciation). The most significant additions for governmental activities were street improvements, both ongoing construction and completed construction. The primary additions for business-type activities were infrastructure improvements, especially the electric distribution system upgrade. Disposals were minimal for both governmental and business-type activities. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2016, the City had bond anticipation notes payable from governmental and business-type activities, in the amount of \$677,000 and \$611,200, respectively. Bond anticipation notes were issued to partially retire notes previously issued for the purchase of a fire truck, street vehicles, and a utility truck. New notes were issued for the purchase of a screw pump at the wastewater treatment plant. The City also had a number of long-term obligations outstanding including \$5,839,000 in general obligation bonds, \$1,169,868 in Ohio Public Works Commission loans, and \$9,811,933 in Ohio Water Development Authority loans. Of this debt, \$16,455,191 will be paid from business-type activities.

**CITY OF GALION**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
Unaudited

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

**CURRENT ISSUES**

In 2016, the City completed the reconstruction project on Portland Way South, adding curbs and storm sewer grates and paving with a long-lasting concrete road surface. The East Park splash feature was completed in July 2016 and was visited during the remainder of the summer by over 7,000 guests.

The Phase IV electrical upgrade project continued in 2016. This project as well as Phase V should be completed in 2018.

Freese Foundation funds were used to complete the press box at the Galion Schools football field with additional projects at the Galion Schools baseball field which were completed in the spring of 2017. Planning began on a project at South Park.

Construction began on the \$200,000 Depot pavilion by utilizing a State grant. This project is slated for completion in spring 2017. Work was also planned for a shelter at Amann Reservoir. The shelter should be completed in late spring/early summer 2017.

Street repaving included 7th, 8th, Baehr, Sara, Trachsel, Smith, Railroad, and Summit streets.

**REQUEST FOR INFORMATION**

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

City of Galion  
Statement of Net Position  
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$5,915,222	\$12,266,928	\$18,182,150	\$0
Investments in Segregated Accounts	0	0	0	9,919,041
Accounts Receivable	124,737	2,754,795	2,879,532	0
Accrued Interest Receivable	48,349	0	48,349	0
Due from Other Governments	360,659	0	360,659	0
Municipal Income Taxes Receivable	1,351,170	0	1,351,170	0
Other Local Taxes Receivable	16,283	0	16,283	0
Excise Taxes Receivable	0	37,083	37,083	0
Internal Balances	236,773	(236,773)	0	0
Prepaid Items	132,656	69,029	201,685	0
Materials and Supplies Inventory	84,302	34,755	119,057	0
Property Taxes Receivable	418,651	0	418,651	0
Notes Receivable	1,044,591	0	1,044,591	0
Special Assessments Receivable	0	254,421	254,421	0
Nondepreciable Capital Assets	3,514,135	6,956,744	10,470,879	0
Depreciable Capital Assets, Net	14,855,964	23,766,323	38,622,287	0
Investment in Joint Venture	0	593,675	593,675	0
<b>Total Assets</b>	<b>28,103,492</b>	<b>46,496,980</b>	<b>74,600,472</b>	<b>9,919,041</b>
<u>Deferred Outflows of Resources</u>				
Pension	2,137,534	1,022,185	3,159,719	0
<u>Liabilities</u>				
Accrued Wages Payable	66,767	31,629	98,396	0
Accounts Payable	78,967	903,147	982,114	0
Contracts Payable	57,390	144,363	201,753	0
Due to Other Governments	185,324	43,424	228,748	0
Retainage Payable	27,520	374,006	401,526	0
Accrued Interest Payable	13,666	60,052	73,718	0
Notes Payable	83,000	611,200	694,200	0
Claims Payable	8,807	0	8,807	0
Deposits Held and Due to Others	0	287,813	287,813	0
Long-Term Liabilities				
Due Within One Year	818,583	1,691,736	2,510,319	0
Due in More Than One Year				
Net Pension Liability	8,052,767	2,445,946	10,498,713	0
Other Amounts Due in More Than One Year	1,189,104	16,175,863	17,364,967	0
<b>Total Liabilities</b>	<b>10,581,895</b>	<b>22,769,179</b>	<b>33,351,074</b>	<b>0</b>
<u>Deferred Inflows of Resources</u>				
Property Taxes	367,343	0	367,343	0
Pension	50,681	73,814	124,495	0
<b>Total Deferred Inflows of Resources</b>	<b>418,024</b>	<b>73,814</b>	<b>491,838</b>	<b>0</b>
<u>Net Position</u>				
Net Investment in Capital Assets	17,090,168	13,942,925	31,033,093	0
Restricted for				
Capital Projects	169,202	0	169,202	0
Police and Fire	1,029,484	0	1,029,484	0
Revolving Loans	1,066,516	0	1,066,516	0
Other Purposes	479,768	0	479,768	0
Unrestricted (Deficit)	(594,031)	10,733,247	10,139,216	9,919,041
<b>Total Net Position</b>	<b>\$19,241,107</b>	<b>\$24,676,172</b>	<b>\$43,917,279</b>	<b>\$9,919,041</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Activities  
For the Year Ended December 31, 2016

	Program Revenues			
Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$2,304,895	\$26,456	\$8,870	\$0
Fire	2,163,765	352,170	164,130	0
Public Health	572,801	238,772	70,295	0
Leisure Time Activities	719,640	6,915	330	0
Community Environment	49,201	0	6,977	0
Transportation	2,491,707	229,748	424,516	245,334
General Government	1,662,649	309,270	17,736	0
Interest and Fiscal Charges	20,554	0	0	0
Total Governmental Activities	9,985,212	1,163,331	692,854	245,334
<u>Business-Type Activities</u>				
Water	2,161,841	1,787,120	0	0
Sewer	2,094,259	1,605,485	0	0
Electric	12,771,323	11,575,673	0	0
Storm Water	709,023	720,935	0	0
Total Business-Type Activities	17,736,446	15,689,213	0	0
Total Primary Government	\$27,721,658	\$16,852,544	\$692,854	\$245,334
<u>Component Unit</u>				
Egbert M. Freese Foundation	\$362,740	\$0	\$0	\$0
Total	\$28,084,398	\$16,852,544	\$692,854	\$245,334

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue and Change in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Egbert M. Freese Foundation
(\$2,269,569)	\$0	(\$2,269,569)	\$0
(1,647,465)	0	(1,647,465)	0
(263,734)	0	(263,734)	0
(712,395)	0	(712,395)	0
(42,224)	0	(42,224)	0
(1,592,109)	0	(1,592,109)	0
(1,335,643)	0	(1,335,643)	0
(20,554)	0	(20,554)	0
<u>(7,883,693)</u>	<u>0</u>	<u>(7,883,693)</u>	<u>0</u>
0	(374,721)	(374,721)	0
0	(488,774)	(488,774)	0
0	(1,195,650)	(1,195,650)	0
0	11,912	11,912	0
<u>0</u>	<u>(2,047,233)</u>	<u>(2,047,233)</u>	<u>0</u>
<u>(7,883,693)</u>	<u>(2,047,233)</u>	<u>(9,930,926)</u>	<u>0</u>
0	0	0	(362,740)
<u>(7,883,693)</u>	<u>(2,047,233)</u>	<u>(9,930,926)</u>	<u>(362,740)</u>
298,404	0	298,404	0
54,478	0	54,478	0
2,497,167	0	2,497,167	0
2,223,155	0	2,223,155	0
274,011	0	274,011	0
424,794	0	424,794	0
217,082	0	217,082	0
120,150	0	120,150	0
(43,225)	2,880	(40,345)	811,354
542,021	153,484	695,505	0
6,608,037	156,364	6,764,401	811,354
<u>(554,997)</u>	<u>554,997</u>	<u>0</u>	<u>0</u>
<u>6,053,040</u>	<u>711,361</u>	<u>6,764,401</u>	<u>811,354</u>
(1,830,653)	(1,335,872)	(3,166,525)	448,614
21,071,760	26,012,044	47,083,804	9,470,427
<u>\$19,241,107</u>	<u>\$24,676,172</u>	<u>\$43,917,279</u>	<u>\$9,919,041</u>

City of Galion  
Balance Sheet  
Governmental Funds  
December 31, 2016

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$4,888,670	\$422,701	\$514,468	\$5,825,839
Accounts Receivable	123,797	0	940	124,737
Accrued Interest Receivable	48,349	0	0	48,349
Due from Other Governments	149,252	0	211,407	360,659
Municipal Income Taxes Receivable	675,585	606,131	69,454	1,351,170
Other Local Taxes Receivable	220	0	16,063	16,283
Interfund Receivable	377,871	0	0	377,871
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	17,501	0	0	17,501
Prepaid Items	71,978	43,121	17,557	132,656
Materials and Supplies Inventory	0	0	84,302	84,302
Property Taxes Receivable	354,061	0	64,590	418,651
Notes Receivable	0	0	1,044,591	1,044,591
<b>Total Assets</b>	<b>\$6,707,284</b>	<b>\$1,071,953</b>	<b>\$2,023,372</b>	<b>\$9,802,609</b>
<u>Liabilities</u>				
Accrued Wages Payable	\$29,454	\$32,269	\$5,044	\$66,767
Accounts Payable	25,229	0	53,738	78,967
Contracts Payable	6,606	0	50,784	57,390
Due to Other Governments	118,937	10,200	56,187	185,324
Retainage Payable	927	0	26,593	27,520
Accrued Interest Payable	873	0	162	1,035
Notes Payable	70,000	0	13,000	83,000
Interfund Payable	16,826	0	100,977	117,803
<b>Total Liabilities</b>	<b>268,852</b>	<b>42,469</b>	<b>306,485</b>	<b>617,806</b>
<u>Deferred Inflows of Resources</u>				
Property Taxes	310,665	0	56,678	367,343
Unavailable Revenue	1,039,641	437,540	235,551	1,712,732
<b>Total Deferred Inflows of Resources</b>	<b>1,350,306</b>	<b>437,540</b>	<b>292,229</b>	<b>2,080,075</b>
<u>Fund Balance</u>				
Nonspendable	89,479	43,121	101,859	234,459
Restricted	0	548,823	1,555,188	2,104,011
Assigned	936,474	0	0	936,474
Unassigned (Deficit)	4,062,173	0	(232,389)	3,829,784
<b>Total Fund Balance</b>	<b>5,088,126</b>	<b>591,944</b>	<b>1,424,658</b>	<b>7,104,728</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance</b>	<b>\$6,707,284</b>	<b>\$1,071,953</b>	<b>\$2,023,372</b>	<b>\$9,802,609</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
 Reconciliation of Total Governmental Fund Balance  
 to Net Position of Governmental Activities  
 December 31, 2016

Total Governmental Fund Balance		\$7,104,728
Amounts reported for governmental activities on the statement of net position are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		18,370,099
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable	355,725	
Accrued Interest Receivable	24,581	
Due from Other Governments	308,803	
Municipal Income Taxes Receivable	972,315	
Delinquent Property Taxes Receivable	51,308	
		1,712,732
An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.		(23,295)
Accrued interest on outstanding debt is not due and payable in the current period and, therefore, is not reported in the funds; it is reported when due.		(12,631)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Notes Payable	(594,000)	
OPWC Loans Payable	(365,610)	
Police Liability	(21,346)	
Fire Liability	(80,913)	
Capital Loan Payable	(225,243)	
Compensated Absences Payable	(720,575)	
		(2,007,687)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows - Pension	2,137,534	
Deferred Inflows - Pension	(50,681)	
Net Pension Liability	(8,052,767)	
		(5,965,914)
An internal service fund is used by management to charge the cost of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		63,075
Net Position of Governmental Activities		\$19,241,107

See Accompanying Notes to the Basic Financial Statements

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City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Governmental Funds  
For the Year Ended December 31, 2016

	General	Police and Fire Levy	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$301,186	\$0	\$54,986	\$356,172
Municipal Income Taxes	2,429,320	2,162,094	267,225	4,858,639
Other Local Taxes	424,794	0	195,221	620,015
Charges for Services	752,420	0	41,842	794,262
Fees, Licenses, and Permits	130,386	0	0	130,386
Fines and Forfeitures	18,406	0	8,050	26,456
Intergovernmental	323,106	0	799,757	1,122,863
Interest	(67,900)	0	4,758	(63,142)
Other	291,298	1,256	249,801	542,355
<b>Total Revenues</b>	<b>4,603,016</b>	<b>2,163,350</b>	<b>1,621,640</b>	<b>8,388,006</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	810,294	1,010,140	221,065	2,041,499
Fire	689,425	860,880	390,327	1,940,632
Public Health	567,693	0	0	567,693
Leisure Time Activities	0	0	775,351	775,351
Community Environment	49,033	0	168	49,201
Transportation	0	0	2,523,121	2,523,121
General Government	1,605,740	30	2,507	1,608,277
Debt Service:				
Principal Retirement	33,825	0	16,678	50,503
Current Refunding	70,000	0	13,000	83,000
Interest and Fiscal Charges	13,351	0	5,022	18,373
<b>Total Expenditures</b>	<b>3,839,361</b>	<b>1,871,050</b>	<b>3,947,239</b>	<b>9,657,650</b>
Excess of Revenues Over (Under) Expenditures	763,655	292,300	(2,325,599)	(1,269,644)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	555,000	0	39,000	594,000
OPWC Loans Issued	0	0	269,769	269,769
Current Refunding	(555,000)	0	(39,000)	(594,000)
Transfers In	0	0	1,218,755	1,218,755
Transfers Out	(1,447,179)	0	(71,805)	(1,518,984)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,447,179)</b>	<b>0</b>	<b>1,416,719</b>	<b>(30,460)</b>
Changes in Fund Balance	(683,524)	292,300	(908,880)	(1,300,104)
Fund Balance Beginning of Year	5,771,650	299,644	2,333,538	8,404,832
Fund Balance End of Year	<u>\$5,088,126</u>	<u>\$591,944</u>	<u>\$1,424,658</u>	<u>\$7,104,728</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
of Governmental Funds to Statement of Activities  
For the Year Ended December 31, 2016

Changes in Fund Balance - Total Governmental Funds (\$1,300,104)

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

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

Capital Outlay - Nondepreciable Capital Assets	946,804	
Capital Outlay - Depreciable Capital Assets	207,091	
Depreciation	(1,290,921)	(137,026)

The book value of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (63,976)

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

Delinquent Property Taxes	(3,290)	
Municipal Income Taxes	135,694	
Charges for Services	137,463	
Fees, Licenses, and Permits	(307)	
Intergovernmental	27,409	
Interest	24,581	321,550

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

Notes Issued	(594,000)	
OPWC Loans Issued	(269,769)	(863,769)

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

Bond Anticipation Notes Payable	677,000	
OPWC Loans Payable	13,087	
Police Liability	750	
Fire Liability	2,841	
Capital Loan Payable	33,825	727,503

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. (2,181)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (1,361)

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (1,114,512)

(continued)

City of Galion  
Reconciliation of Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
of Governmental Funds to Statement of Activities  
For the Year Ended December 31, 2016  
(continued)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. \$576,799

The internal service fund used by management to charge the cost of insurance to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 26,424

Change in Net Position of Governmental Activities (\$1,830,653)

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
General Fund  
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$278,346	\$278,346	\$301,186	\$22,840
Municipal Income Taxes	2,411,250	2,411,250	2,397,678	(13,572)
Other Local Taxes	548,460	548,460	422,421	(126,039)
Charges for Services	1,056,517	1,076,117	1,040,626	(35,491)
Fees, Licenses, and Permits	127,975	127,975	130,386	2,411
Fines and Forfeitures	11,169	11,169	17,513	6,344
Intergovernmental	304,081	504,081	320,771	(183,310)
Interest	24,000	24,000	(91,668)	(115,668)
Other	307,546	307,546	322,080	14,534
<b>Total Revenues</b>	<b>5,069,344</b>	<b>5,288,944</b>	<b>4,860,993</b>	<b>(427,951)</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	885,700	915,100	832,160	82,940
Fire	1,001,350	1,014,250	705,883	308,367
Public Health	592,430	628,630	586,277	42,353
Community Environment	39,900	269,902	269,902	0
General Government	1,517,617	1,834,519	1,562,045	272,474
Debt Service:				
Principal Retirement	736,573	736,573	728,825	7,748
Interest and Fiscal Charges	31,275	31,275	12,945	18,330
<b>Total Expenditures</b>	<b>4,804,845</b>	<b>5,430,249</b>	<b>4,698,037</b>	<b>732,212</b>
Excess of Revenues Over (Under) Expenditures	264,499	(141,305)	162,956	304,261
<u>Other Financing Sources (Uses)</u>				
Other Financing Sources	0	0	6,726	6,726
Bond Anticipation Notes Issued	625,000	625,000	625,000	0
Advances In	71,806	71,806	71,494	(312)
Advances Out	(71,806)	(71,806)	(71,806)	0
Transfers Out	(1,714,381)	(1,970,981)	(1,447,179)	523,802
<b>Total Other Financing Sources (Uses)</b>	<b>(1,089,381)</b>	<b>(1,345,981)</b>	<b>(815,765)</b>	<b>530,216</b>
Changes in Fund Balance	(824,882)	(1,487,286)	(652,809)	834,477
Fund Balance Beginning of Year	5,261,164	5,261,164	5,261,164	0
Prior Year Encumbrances Appropriated	23,077	23,077	23,077	0
<b>Fund Balance End of Year</b>	<b>\$4,459,359</b>	<b>\$3,796,955</b>	<b>\$4,631,432</b>	<b>\$834,477</b>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Revenues, Expenditures,  
and Changes in Fund Balance  
Budget (Non-GAAP Budgetary Basis) and Actual  
Police and Fire Levy Special Revenue Fund  
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Municipal Income Taxes	\$2,146,065	\$2,146,065	\$2,133,932	(\$12,133)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,029,700	1,101,600	1,038,737	62,863
Fire	929,300	995,200	887,324	107,876
General Government	257,546	245,546	30	245,516
Total Expenditures	2,216,546	2,342,346	1,926,091	416,255
Excess of Revenues Over (Under) Expenditures	(70,481)	(196,281)	207,841	404,122
<u>Other Financing Sources</u>				
Other Financing Sources	0	0	1,651	1,651
Changes in Fund Balance	(70,481)	(196,281)	209,492	405,773
Fund Balance Beginning of Year	213,209	213,209	213,209	0
Fund Balance End of Year	<u>\$142,728</u>	<u>\$16,928</u>	<u>\$422,701</u>	<u>\$405,773</u>

See Accompanying Notes to the Basic Financial Statements

City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2016

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Assets</u>					
<u>Current Assets</u>					
Equity in Pooled Cash and Cash Equivalents	\$2,467,752	\$4,010,403	\$4,605,690	\$895,270	\$11,979,115
Accounts Receivable	375,737	282,475	2,028,131	68,452	2,754,795
Excise Taxes Receivable	0	0	37,083	0	37,083
Interfund Receivable	5,299	0	52,234	26,705	84,238
Prepaid Items	19,465	15,898	27,254	6,412	69,029
Materials and Supplies Inventory	31,688	3,067	0	0	34,755
Special Assessments Receivable	10,742	17,527	0	0	28,269
Total Current Assets	2,910,683	4,329,370	6,750,392	996,839	14,987,284
<u>Non-Current Assets</u>					
<u>Restricted Assets</u>					
Equity in Pooled Cash and Cash Equivalents	81,328	77,953	128,532	0	287,813
Special Assessments Receivable	85,938	140,214	0	0	226,152
Nondepreciable Capital Assets	902,699	1,146,571	4,907,474	0	6,956,744
Depreciable Capital Assets, Net	6,053,668	7,542,203	5,254,126	4,916,326	23,766,323
Investment in Joint Venture	0	0	593,675	0	593,675
Total Non-Current Assets	7,123,633	8,906,941	10,883,807	4,916,326	31,830,707
Total Assets	10,034,316	13,236,311	17,634,199	5,913,165	46,817,991
<u>Deferred Outflows of Resources</u>					
Pension	281,584	238,275	384,574	117,752	1,022,185
<u>Liabilities</u>					
<u>Current Liabilities</u>					
Accrued Wages Payable	9,825	8,097	11,577	2,130	31,629
Accounts Payable	13,109	11,464	878,159	415	903,147
Contracts Payable	0	76,256	68,107	0	144,363
Due to Other Governments	10,749	10,156	18,748	3,771	43,424
Retainage Payable	194	3,828	369,984	0	374,006
Compensated Absences Payable	24,785	25,771	34,332	5,273	90,161
Interfund Payable	105,240	90,007	124,779	24,280	344,306
Accrued Interest Payable	0	7,230	52,433	389	60,052
Notes Payable	0	580,000	0	31,200	611,200
Claims Payable	0	0	0	0	0
General Obligation Bonds Payable	0	0	888,000	0	888,000
OPWC Loans Payable	10,555	0	0	41,925	52,480
OWDA Loans Payable	275,059	101,636	0	0	376,695
AMP Ohio Payable	0	0	284,400	0	284,400
Total Current Liabilities	449,516	914,445	2,730,519	109,383	4,203,863

Governmental  
Activity  

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Internal  
Service  
Fund  

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\$71,882  
0  
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0

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71,882

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71,882

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8,807  
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0  
0  

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0

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8,807

City of Galion  
Statement of Fund Net Position  
Proprietary Funds  
December 31, 2016  
(continued)

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Non-Current Liabilities</u>					
Deposits Held and Due to Others	\$81,328	\$77,953	\$128,532	\$0	\$287,813
General Obligation Bonds Payable	0	0	4,951,000	0	4,951,000
OPWC Loans Payable	65,000	0	0	686,778	751,778
OWDA Loans Payable	4,952,763	4,482,475	0	0	9,435,238
AMP Ohio Payable	0	0	629,573	0	629,573
Compensated Absences Payable	144,272	175,965	78,160	9,877	408,274
Net Pension Liability	704,764	621,850	870,592	248,740	2,445,946
Total Non-Current Liabilities	5,948,127	5,358,243	6,657,857	945,395	18,909,622
Total Liabilities	6,397,643	6,272,688	9,388,376	1,054,778	23,113,485
<u>Deferred Inflows of Resources</u>					
Pension	13,617	38,569	16,821	4,807	73,814
<u>Net Position</u>					
Net Investment in Capital Assets	1,652,796	4,104,663	4,029,043	4,156,423	13,942,925
Unrestricted	2,251,844	3,058,666	4,584,533	814,909	10,709,952
Total Net Position	\$3,904,640	\$7,163,329	\$8,613,576	\$4,971,332	24,652,877
Net position reported for business-type activities on the statement of net position is different because it includes a proportionate share of the balance of the internal service fund.					23,295
Net position of business-type activities					\$24,676,172

See Accompanying Notes to the Basic Financial Statements



Governmental  
Activity  
Internal  
Service  
Fund

\$0  
0  
0  
0  
0  
0  
0

0

8,807

0

0  
63,075

\$63,075

City of Galion  
Statement of Revenues, Expenses,  
and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2016

	Business-Type Activities				Total Enterprise Funds
	Water	Sewer	Electric	Storm Water	
<u>Operating Revenues</u>					
Charges for Services	\$1,787,120	\$1,605,485	\$11,575,673	\$720,935	\$15,689,213
Other	30,130	28,045	95,167	142	153,484
Total Operating Revenues	<u>1,817,250</u>	<u>1,633,530</u>	<u>11,670,840</u>	<u>721,077</u>	<u>15,842,697</u>
<u>Operating Expenses</u>					
Salaries	567,173	475,598	627,303	178,600	1,848,674
Benefits	292,287	292,329	391,457	128,085	1,104,158
Contractual Services	297,051	299,548	10,265,192	38,759	10,900,550
Materials and Supplies	343,778	285,219	217,466	214,585	1,061,048
Bad Debt	47,178	43,286	402,078	20,325	512,867
Claims	0	0	0	0	0
Depreciation	370,759	584,828	196,933	104,278	1,256,798
Other	83,456	78,898	160,198	24,280	346,832
Total Operating Expenses	<u>2,001,682</u>	<u>2,059,706</u>	<u>12,260,627</u>	<u>708,912</u>	<u>17,030,927</u>
Operating Income (Loss)	<u>(184,432)</u>	<u>(426,176)</u>	<u>(589,787)</u>	<u>12,165</u>	<u>(1,188,230)</u>
<u>Non-Operating Revenues (Expenses)</u>					
Interest Revenue	0	0	2,880	0	2,880
Interest Expense	(164,813)	(39,053)	(284,741)	(421)	(489,028)
Loss on Disposal of Capital Assets	0	0	(90,304)	0	(90,304)
Loss from Joint Venture	0	0	(141,703)	0	(141,703)
Total Non-Operating Revenues (Expenses)	<u>(164,813)</u>	<u>(39,053)</u>	<u>(513,868)</u>	<u>(421)</u>	<u>(718,155)</u>
Income (Loss) before Contributions and Transfers	<u>(349,245)</u>	<u>(465,229)</u>	<u>(1,103,655)</u>	<u>11,744</u>	<u>(1,906,385)</u>
Capital Contributions	0	0	0	254,768	254,768
Transfers In	115,250	128,383	103,547	24,542	371,722
Transfers Out	<u>(27,167)</u>	<u>(44,326)</u>	<u>0</u>	<u>0</u>	<u>(71,493)</u>
Changes in Net Position	<u>(261,162)</u>	<u>(381,172)</u>	<u>(1,000,108)</u>	<u>291,054</u>	<u>(1,351,388)</u>
Net Position Beginning of Year	<u>4,165,802</u>	<u>7,544,501</u>	<u>9,613,684</u>	<u>4,680,278</u>	
Net Position End of Year	<u><u>\$3,904,640</u></u>	<u><u>\$7,163,329</u></u>	<u><u>\$8,613,576</u></u>	<u><u>\$4,971,332</u></u>	
The change in net position reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.				<u>15,516</u>	
Change in net position of business-type activities				<u><u>(1,335,872)</u></u>	

See Accompanying Notes to the Basic Financial Statements

Governmental  
Activity  
Internal  
Service  
Fund

\$103,340  
0

103,340

0  
0  
0  
0  
0  
61,400  
0  
0

61,400

41,940

0  
0  
0  
0

0

41,940

0  
0  
0

41,940

21,135

\$63,075

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2016

	Business-Type Activities			
	Water	Sewer	Electric	Storm Water
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,748,710	\$1,584,571	\$11,313,888	\$712,216
Cash Received from				
Transactions with Other Funds	0	0	0	0
Cash Received from Deposits	23,116	23,258	44,675	0
Cash Received from Other Revenues	30,285	28,186	87,833	34,910
Cash Payments for Salaries	(519,865)	(505,235)	(630,702)	(191,507)
Cash Payments for Benefits	(275,544)	(285,832)	(360,391)	(117,147)
Cash Payments for Contractual Services	(308,819)	(150,602)	(10,486,674)	(41,428)
Cash Payments for Materials and Supplies	(361,862)	(357,116)	(213,158)	(243,310)
Cash Payments for Claims	0	0	0	0
Cash Payments for Deposits Refunded	(21,525)	(21,050)	(39,365)	0
Cash Payments for Other Expenses	(87,963)	(88,828)	(173,064)	(24,542)
Net Cash Provided by (Used for) Operating Activities	<u>226,533</u>	<u>227,352</u>	<u>(456,958)</u>	<u>129,192</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	87,963	83,865	103,547	24,542
Transfers Out	(16,768)	(27,358)	0	0
Net Cash Provided by Noncapital Financing Activities	<u>71,195</u>	<u>56,507</u>	<u>103,547</u>	<u>24,542</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes	0	0	0	(39,000)
Principal Paid on General Obligation Bonds	0	0	(855,000)	0
Principal Paid on OPWC Loans	(10,555)	0	0	(30,371)
Principal Paid on OWDA Loans	(247,698)	(265,080)	0	0
Interest Paid on Bond Anticipation Notes	0	0	0	(292)
Interest Paid on General Obligation Bonds	0	0	(291,805)	0
Interest Paid on OWDA Loans	(156,855)	(18,841)	0	0
Bond Anticipation Notes Issued	0	580,000	0	31,200
OWDA Loans Issued	0	7,412	0	0
Acquisition of Capital Assets	(78,776)	(633,719)	(1,482,711)	(754,224)
Net Cash Used for Capital and Related Financing Activities	<u>(493,884)</u>	<u>(330,228)</u>	<u>(2,629,516)</u>	<u>(792,687)</u>
<u>Cash Flows from Investing Activities</u>				
Interest	0	0	2,880	0
Net Increase (Decrease) in Cash and Cash Equivalents	(196,156)	(46,369)	(2,980,047)	(638,953)
Cash and Cash Equivalents Beginning of Year	<u>2,745,236</u>	<u>4,134,725</u>	<u>7,714,269</u>	<u>1,534,223</u>
Cash and Cash Equivalents End of Year	<u>\$2,549,080</u>	<u>\$4,088,356</u>	<u>\$4,734,222</u>	<u>\$895,270</u>

Total Enterprise Funds	Governmental Activity <u>Internal Service Fund</u>
\$15,359,385	\$0
0	103,340
91,049	0
181,214	0
(1,847,309)	0
(1,038,914)	0
(10,987,523)	0
(1,175,446)	0
0	(59,352)
(81,940)	0
(374,397)	0
<u>126,119</u>	<u>43,988</u>
299,917	0
(44,126)	0
<u>255,791</u>	<u>0</u>
(39,000)	0
(855,000)	0
(40,926)	0
(512,778)	0
(292)	0
(291,805)	0
(175,696)	0
611,200	0
7,412	0
(2,949,430)	0
<u>(4,246,315)</u>	<u>0</u>
<u>2,880</u>	<u>0</u>
(3,861,525)	43,988
<u>16,128,453</u>	<u>27,894</u>
<u>\$12,266,928</u>	<u>\$71,882</u>

(continued)

City of Galion  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2016  
(continued)

	Business-Type Activities			
	Water	Sewer	Electric	Storm Water
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	(\$184,432)	(\$426,176)	(\$589,787)	\$12,165
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Allowance for Uncollectibles	47,178	43,286	402,078	20,325
Depreciation	370,759	584,828	196,933	104,278
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(38,753)	(21,473)	(251,814)	26,017
Decrease in Due from Other Governments	155	141	194	32
Increase in Excise Taxes Receivable	0	0	(2,667)	0
Increase in Interfund Receivable	(5,299)	0	(17,499)	(26,705)
Increase in Prepaid Items	(15,862)	(12,301)	(20,273)	(5,414)
Increase in Materials and Supplies Inventory	(14,932)	(818)	0	0
Decrease in Special Assessments Receivable	343	559	0	0
Increase (Decrease) in Accrued Wages Payable	1,943	1,388	2,995	(190)
Increase (Decrease) in Accounts Payable	(10,270)	(5,289)	41,248	(3,031)
Increase (Decrease) in Contracts Payable	0	76,256	(2,660)	(2,092)
Decrease in Due to Other Governments	(9,319)	(6,254)	(6,815)	(2,704)
Increase (Decrease) in Retainage Payable	(485)	3,828	0	0
Increase (Decrease) in Compensated Absences Payable	45,365	(31,025)	(6,394)	(12,717)
Decrease in Interfund Payable	(2,806)	(8,510)	(10,378)	(262)
Increase in Claims Payable	0	0	0	0
Increase in Deposits Held and Due to Others	1,591	2,208	5,310	0
Decrease in AMP Ohio Payable	0	0	(258,305)	0
Increase (Decrease) in Net Pension Liability	(18,799)	20,147	(59,956)	(25,005)
Decrease in Deferred Outflows - Pension	68,275	52,524	130,861	47,360
Decrease in Deferred Inflows - Pension	(8,119)	(45,967)	(10,029)	(2,865)
Net Cash Provided by (Used for) Operating Activities	\$226,533	\$227,352	(\$456,958)	\$129,192

Non-Cash Capital Transactions

During 2016, the Storm Water fund accepted the donation of capital assets from governmental funds, in the amount of \$254,768.

See Accompanying Notes to the Basic Financial Statements

Total Enterprise Funds	Governmental Activity <u>Internal Service Fund</u>
(\$1,188,230)	\$41,940
512,867	0
1,256,798	0
(286,023)	0
522	0
(2,667)	0
(49,503)	0
(53,850)	0
(15,750)	0
902	0
6,136	0
22,658	0
71,504	0
(25,092)	0
3,343	0
(4,771)	0
(21,956)	0
0	2,048
9,109	0
(258,305)	0
(83,613)	0
299,020	0
(66,980)	0
<u>\$126,119</u>	<u>\$43,988</u>

City of Galion  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2016

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$46,907</u>
<u>Liabilities</u>	
Undistributed Assets	<u>\$46,907</u>

See Accompanying Notes to the Basic Financial Statements



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

**A. The City**

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

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

The City of Galion is divided into various departments and financial management and control systems. Services provided include police protection, fire protection, ambulance, health services, parks and recreation, airport facilities, street maintenance and repair, and water, sewer, electric, and storm water services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

**B. Reporting Entity**

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Galion consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Galion, this includes all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.

**Discretely Presented Component Unit**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

Egbert M. Freese Foundation - The Egbert M. Freese Foundation (Foundation) is a not-for-profit corporation. The Foundation is organized, and at all times is operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the City of Galion. Upon the dissolution of the Foundation, after payment of all liabilities, all assets of the Foundation shall be transferred to the City of Galion. It is intended that the Foundation allocate its funds in such a way that one-eighth of the income is used for college scholarships for worthy high school graduates in the City, with the remaining income to be generally used for upkeep and maintenance of City facilities that benefit the citizens of the City or to pay costs of improvements as shown on the City's current capital improvements plan and which are otherwise suitable to the memory of Egbert M. Freese. For 2016, the City received \$163,259 from the Foundation. Information on the Foundation may be obtained from the Law Offices of Hottenroth, Garverick, Tilson & Co., L.P.A., 126 South Market Street, P.O. Box 477, Galion, Ohio 44833.

The City of Galion participates in a public entity shared risk pool, two joint ventures, a jointly governed organization, and a related organization. These organizations are the Public Entities Pool of Ohio, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1), the Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2), the Galion/Polk Township Community Improvement Corporation, and the Galion Public Library. These organizations are presented in Notes 22, 23, 24, and 25 to the basic financial statements.

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

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

Proprietary Funds

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

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

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

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications; pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2016. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for transient fees collected for use by a convention and visitors bureau and for health care contributions deducted from employee salaries.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the City, deferred inflows of resources consists of property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide and proprietary funds statement of net position and explained in Note 14 to the basic financial statements.

Expenses/Expenditures

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During 2016, the City invested in negotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Investments are reported at fair value. Fair value is based on quoted market price or current share price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. Star Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s) but only to the \$50 million limit. All accounts of the participant will be combined for this purpose.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. For 2016, the City reported negative interest in the General Fund due to a reduction in the market value of investments.

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

**G. Restricted Assets**

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

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

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

**I. Inventory**

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

**J. Capital Assets**

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



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

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

**K. Interfund Receivables/Payables**

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

**L. Compensated Absences**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

**M. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

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

**N. Net Position**

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

**O. Fund Balance**

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

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

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

**P. Operating Revenues and Expenses**

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

**Q. Capital Contributions**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

**R. Interfund Transactions**

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

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

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

**S. Pension**

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

**T. Estimates**

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

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For 2016, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68", GASB Statement No. 76, "Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 79, "Certain External Investment Pools and Pool Participants", and GASB Statement No. 82, "Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73".

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES** (continued)

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67 and Statement No. 68. The implementation of this statement did not result in any changes to the City's financial statements.

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the City's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this statement did not result in any change to the City's financial statements as the City does not have any material GASB Statement No. 77 tax abatements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure, for financial reporting purposes, all of their investments at amortized cost. The statement provides accounting and financial reporting guidance that also establishes additional note disclosure requirements for governments that participate in these pools. The City incorporated the corresponding GASB Statement No. 79 guidance into the 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the City's 2016 financial statements; however, there was no effect on beginning net position/fund balance.

**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At December 31, 2016, the following funds had deficit fund balances:

<u>Fund</u>	<u>Deficit</u>
Nonmajor Special Revenue Funds	
Street Maintenance	\$29,339
Police Pension	17,717
Fire Pension	23,119
Nonmajor Debt Service Fund	
Cheshire Special Assessment	71,806

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

**B. Compliance**

For the year ended December 31, 2016, the Street Maintenance special revenue fund, State Route 598 Construction capital projects fund, and Storm Water enterprise fund had final appropriations in excess of estimated resources plus available balances, in the amount of \$11,500, \$66,260, and \$21,122, respectively. The City will review appropriations to ensure they are within amounts available.

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2016.

Fund Program/Object	Appropriations	Expenditures Plus Encumbrances	Excess
Sewer Fund			
Debt Service			
Principal Retirement	\$212,000	\$265,080	\$53,080

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

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

	<u>General</u>	<u>Police and Fire Levy</u>
GAAP Basis	(\$683,524)	\$292,300
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2015, Received in Cash 2016	571,726	140,824
Accrued 2016, Not Yet Received in Cash	(307,023)	(168,591)
Expenditure Accruals:		
Accrued 2015, Paid in Cash 2016	(104,631)	(54,389)
Accrued 2016, Not Yet Paid in Cash	198,852	42,469
Cash Accruals:		
Unrecorded Activity 2015	1,021	0
Unrecorded Activity 2016	(1,350)	0
Prepaid Items	(54,179)	(43,121)
Bond Anticipation Notes Issued	70,000	0
Bond Anticipation Notes Retired	(70,000)	0
Advances In	71,494	0
Advances Out	(71,806)	0
Encumbrances Outstanding at Year End (Budget Basis)	(273,389)	0
Budget Basis	<u>(\$652,809)</u>	<u>\$209,492</u>

**NOTE 6 - DEPOSITS AND INVESTMENTS**

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time.

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

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



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$3,269,124 of the City's bank balance of \$5,867,481 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

Investments

Investments are reported at fair value. As of December 31, 2016, the City had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Less Than Six Months</u>	<u>Six Months to One Year</u>	<u>One Year to Two Years</u>	<u>More Than Two Years</u>
Fair Value					
Negotiable Certificates of Deposit	\$3,673,806	\$0	\$1,813,108	\$1,860,698	\$0
Federal Home Loan Bank Notes	736,928	0	0	0	736,928
Federal Home Loan Mortgage Corporation Notes	6,183,547	0	0	1,494,920	4,688,627
Federal National Mortgage Association Notes	2,266,653	0	0	0	2,266,653
Mutual Funds	12,099	12,099	0	0	0
Net Value Per Share					
STAR Ohio	1,055,130	1,055,130	0	0	0
Total Investments	<u>\$13,928,163</u>	<u>\$1,067,229</u>	<u>\$1,813,108</u>	<u>\$3,355,618</u>	<u>\$7,692,208</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2016. All of the City's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

The negotiable certificates of deposit are generally covered by FDIC insurance. The federal agency securities and mutual funds carry a rating of Aaa by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

	Fair Value	Percentage of Portfolio
Negotiable Certificates of Deposit	\$3,673,806	26.38%
Federal Home Loan Bank	736,928	5.29
Federal Home Loan Mortgage Corporation	6,183,547	44.40
Federal National Mortgage Association	2,266,653	16.27

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2016, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; excise taxes; interfund; property taxes; notes, and special assessments. All receivables are considered collectible in full and within one year, except for municipal income taxes, property taxes, notes, special assessments, and the allowance for uncollectibles related to utility services. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$1,033,631, will not be received within one year. Special assessments, in the amount of \$226,152, will not be received within one year. At December 31, 2016, the amount of delinquent special assessments was \$212.

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

	Water	Sewer	Electric	Storm Water	Total Enterprise Funds
Accounts Receivable	\$602,636	\$491,777	\$3,568,186	\$162,441	\$4,825,040
Less Allowance for Uncollectibles	(226,899)	(209,302)	(1,540,055)	(93,989)	(2,070,245)
Net Accounts Receivable	\$375,737	\$282,475	\$2,028,131	\$68,452	\$2,754,795

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 7 - RECEIVABLES** (continued)

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

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$26,320
Local Government	83,078
Cigarette Taxes	375
Crawford County	905
Victims of Crime	14,754
Bulletproof Vest Grant	3,236
Priority One EMS Grant	2,750
OFCC Grant	2,484
Ohio Department of Health	15,350
Total General Fund	149,252
Nonmajor Funds	
Police Drug Fines	
Crawford County	125
OVI Enforcement and Education	
Crawford County	153
Street Maintenance	
Gasoline Tax	155,985
Motor Vehicle License Tax	34,831
Total Street Maintenance	190,816
State Highway	
Gasoline Tax	12,647
Motor Vehicle License Tax	2,824
Total State Highway	15,471
Recreation	
Crawford County	50
Police Pension	
Homestead and Rollback	2,396
Fire Pension	
Homestead and Rollback	2,396
Total Nonmajor Funds	211,407
Total Governmental Activities	\$360,659

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 8 - MUNICIPAL INCOME TAXES**

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

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

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

**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2016 represent the collection of 2015 taxes. Real property taxes received in 2016 were levied after October 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2016 represent the collection of 2015 taxes. Public utility real and tangible personal property taxes received in 2016 became a lien on December 31, 2014, were levied after October 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of December 31, 2016, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2016 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 9 - PROPERTY TAXES** (continued)

The full tax rate for all City operations for the year ended December 31, 2016, was \$3.90 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2016 property tax receipts were based are as follows:

<u>Category</u>	<u>Amount</u>
Real Property	
Agricultural	\$956,130
Residential	80,868,770
Commercial	18,619,770
Industrial	6,675,540
Public Utility Property	
Real	47,340
Personal	1,138,800
Total Assessed Value	<u>\$108,306,350</u>

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$3,485,816	\$0	\$0	\$3,485,816
Construction in Progress	491,673	946,804	(1,410,158)	28,319
Total Nondepreciable Capital Assets	<u>3,977,489</u>	<u>946,804</u>	<u>(1,410,158)</u>	<u>3,514,135</u>
Depreciable Capital Assets				
Buildings	1,071,062	0	0	1,071,062
Improvements Other Than Buildings	1,579,789	75,964	0	1,655,753
Streets	28,034,999	1,444,696	(349,697)	29,129,998
Bridges	1,236,330	0	0	1,236,330
Equipment	1,307,176	61,020	(41,550)	1,326,646
Vehicles	3,088,517	35,569	0	3,124,086
Total Depreciable Capital Assets	<u>36,317,873</u>	<u>1,617,249</u>	<u>(391,247)</u>	<u>37,543,875</u>
Less Accumulated Depreciation for				
Buildings	(561,884)	(30,318)	0	(592,202)
Improvements Other Than Buildings	(416,203)	(70,906)	0	(487,109)
Streets	(18,105,891)	(952,681)	288,095	(18,770,477)
Bridges	(672,632)	(24,727)	0	(697,359)
Equipment	(731,752)	(67,793)	39,176	(760,369)
Vehicles	(1,235,899)	(144,496)	0	(1,380,395)
Total Accumulated Depreciation	<u>(21,724,261)</u>	<u>(1,290,921)</u>	<u>327,271</u>	<u>(22,687,911)</u>
Total Depreciable Capital Assets, Net	<u>14,593,612</u>	<u>326,328</u>	<u>(63,976)</u>	<u>14,855,964</u>
Governmental Activities Capital Assets, Net	<u>\$18,571,101</u>	<u>\$1,273,132</u>	<u>(\$1,474,134)</u>	<u>\$18,370,099</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$2,211,015	\$0	\$0	\$2,211,015
Construction in Progress	3,919,206	2,061,446	(1,234,923)	4,745,729
Total Nondepreciable Capital Assets	<u>6,130,221</u>	<u>2,061,446</u>	<u>(1,234,923)</u>	<u>6,956,744</u>
Depreciable Capital Assets				
Buildings	19,243,424	456,821	0	19,700,245
Improvements Other Than Buildings	7,599,975	0	0	7,599,975
Water, Sewer, Electric, and Storm Water Lines	12,691,047	1,076,196	(2,650)	13,764,593
Equipment	3,373,064	44,345	0	3,417,409
Vehicles	1,330,094	737,185	(265,237)	1,802,042
Total Depreciable Capital Assets	<u>44,237,604</u>	<u>2,314,547</u>	<u>(267,887)</u>	<u>46,284,264</u>
Less Accumulated Depreciation for				
Buildings	(11,296,810)	(698,840)	0	(11,995,650)
Improvements Other Than Buildings	(2,626,205)	(140,747)	0	(2,766,952)
Water, Sewer, Electric, and Storm Water Lines	(4,282,669)	(245,250)	2,650	(4,525,269)
Equipment	(2,104,354)	(132,424)	0	(2,236,778)
Vehicles	(1,128,688)	(39,537)	174,933	(93,292)
Total Accumulated Depreciation	<u>(21,438,726)</u>	<u>(1,256,798)</u>	<u>177,583</u>	<u>(22,517,941)</u>
Total Depreciable Capital Assets, Net	<u>22,798,878</u>	<u>1,057,749</u>	<u>(90,304)</u>	<u>23,766,323</u>
Business-Type Activities Capital Assets, Net	<u>\$28,929,099</u>	<u>\$3,119,195</u>	<u>(\$1,325,227)</u>	<u>\$30,723,067</u>

Business-type activities accepted contributions of capital assets from governmental activities with a fair value of \$254,768.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$28,788
Security of Persons and Property - Fire	90,563
Public Health	5,377
Leisure Time Activities	55,941
Transportation	1,086,281
General Government	23,971
Total Depreciation Expense - Governmental Activities	<u>\$1,290,921</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 11 - INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2016, the General Fund had an interfund receivable, in the amount of \$377,871; \$71,806 from other governmental funds for short-term loans made to those funds, and \$83,456 from the Water enterprise fund, \$73,550 from the Sewer enterprise fund, \$124,779 from the Electric enterprise fund, and \$24,280 from the Storm Water enterprise fund for services provided to those funds.

The Water enterprise fund had an interfund receivable, in the amount of \$5,299; \$2,466 from other governmental funds and \$2,833 from the Sewer enterprise fund for payments made on capital projects.

The Electric enterprise fund had an interfund receivable, in the amount of \$52,234; \$16,826 from the General Fund; \$21,784 from the Water enterprise fund, and \$13,624 from the Sewer enterprise fund for services provided to those funds.

The Storm Water enterprise fund had an interfund receivable, in the amount of \$26,705, from other governmental funds for payments made on capital projects.

**NOTE 12 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in the Public Entities Pool of Ohio, a public entity shared risk pool. The City pays an annual premium to the pool for various types of insurance coverage. Member cities agree to share in the coverage of losses and pay all premiums necessary for the specified insurance coverage. Upon withdrawal from the Pool, a participant is responsible for the payment of all liabilities accruing as a result of withdrawal. During 2016, the City had the following insurance coverage:

Type of Coverage	Coverage	Deductible
Property (building and contents)	\$22,748,807	\$1,000
Flood/Earthquake	1,000,000	50,000
General Liability		
Per Occurrence	6,000,000	0
Employee Benefits Liability	1,000,000	0
Stop Gap Liability	6,000,000	0
Law Enforcement Liability	6,000,000	5,000
Automobile Liability	6,000,000	0
Cyber Liability	6,000,000	0
Crime Coverage	6,000,000	1,000

There has been no significant reduction in insurance coverage from 2015 and no insurance settlement has exceeded insurance coverage during the last three years.

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

The changes in the claims liability for 2016 and 2015 were as follows:

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
2016	\$6,759	\$61,400	\$59,352	\$8,807
2015	5,720	93,224	92,185	6,759

**NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS**

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2016:

Vendor	Contract Amount	Amount Paid as of 12/31/16	Outstanding Balance
Blake Rafeld & Assoc., Inc.	\$84,000	\$3,600	\$80,400
Buckeye Pumps, Inc.	56,000	0	56,000
CT Consultants	18,500	5,278	13,222
G.E. Baker	39,840	0	39,840
GDP Group	130,490	30,419	100,071
Main Lite Electric Co., Inc.	2,650,500	2,392,775	257,725
Peterson Construction	365,000	0	365,000
Weithman Bros., Inc.	211,750	2,484	209,266

At year end, the significant encumbrances expected to be honored upon performance by the vendor in 2017 are as follows:

General Fund	\$273,389
Other Governmental Funds	229,829



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

**Net Pension Liability**

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

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

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

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

	State and Local	Public Safety	Law Enforcement
<b>2016 Statutory Maximum Contribution Rates</b>			
Employer	14.0%	18.1%	18.1%
Employee	10.0 %	*	**
<b>2016 Actual Contribution Rates</b>			
Employer			
Pension	12.0 %	16.1 %	16.1 %
Postemployment Health Care Benefits	2.0	2.0	2.0
Total Employer	14.0 %	18.1 %	18.1 %
Total Employee	10.0 %	12.0 %	13.0 %

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$369,928 for 2016. Of this amount, \$39,213 is reported as an intergovernmental payable.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

	Police	Firefighters
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50%	24.00%
Employee	12.25%	12.25%
 <b>2016 Actual Contribution Rates</b>		
Employer		
Pension	19.00 %	23.50 %
Postemployment Health Care Benefits	.50	.50
Total Employer	19.50 %	24.00 %
Total Employee	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution was \$425,129 for 2016. Of this amount, \$50,337 is reported as an intergovernmental payable.

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

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	OPERS	OPF	Total
Proportion of the Net Pension Liability			
Current Measurement Date	0.02393400%	0.09875600%	
Prior Measurement Date	0.02308100%	0.09833180%	
Change in Proportionate Share	0.00008530%	0.00042420%	
 Proportionate Share of the Net			
Pension Liability	\$4,145,670	\$6,353,043	\$10,498,713
Pension Expense	\$613,204	\$867,993	\$1,481,197

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources.

	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$1,218,568	\$1,034,032	\$2,252,600
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	94,433	17,629	112,062
City Contributions Subsequent to the Measurement Date	369,928	425,129	795,057
Total Deferred Outflows of Resources	<u>\$1,682,929</u>	<u>\$1,476,790</u>	<u>\$3,159,719</u>
<b>Deferred Inflows of Resources</b>			
Difference Between Expected and Actual Experience	\$80,103	\$17,839	\$97,942
Changes in Proportion and Differences Between City Contributions and the Proportionate Share of Contributions	26,553	0	26,553
Total Deferred Inflows of Resources	<u>\$106,656</u>	<u>\$17,839</u>	<u>\$124,495</u>

\$795,057 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

Year Ending December 31,	<u>OPERS</u>	<u>OPF</u>	<u>Total</u>
2017	\$297,832	\$272,249	\$570,081
2018	317,317	272,249	589,566
2019	315,432	272,249	587,681
2020	275,764	213,034	488,798
2021	0	3,397	3,397
Thereafter	0	644	644
Total	<u>\$1,206,345</u>	<u>\$1,033,822</u>	<u>\$2,240,167</u>

**Actuarial Assumptions - OPERS**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions applied to all periods included in the measurement in accordance with GASB Statement No. 67. Key methods and assumptions used in the latest actuarial valuation are presented below.

Wage Inflation	3.75 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	4.25 to 10.05 percent including wage inflation
Pre-January 7, 2013, Retirees	3 percent simple
Post-January 7, 2013, Retirees	3 percent simple through 2018, then 2.8 percent simple
Investment Rate of Return	8 percent
Actuarial Cost Method	individual entry age

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio, and the Defined Contribution portfolio. The Defined Benefits portfolio includes the investment assets of the traditional pension plan, the defined benefit component of the combined plan, the annuitized accounts of the member-directed plan, and the VEBA Trust. Within the Defined Benefits portfolio, contributions into the plans are all recorded at the same time and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expenses, for the Defined Benefits portfolio was .4 percent for 2015.

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

The table below displays the board approved asset allocation policy for 2015 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	18.00	4.59
Total	100.00 %	5.27 %

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

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's Proportionate Share of the Net Pension Liability	\$6,605,066	\$4,145,670	\$2,071,248

**Changes Between Measurement Date and Report Date**

In October 2016, the OPERS Board adopted certain assumption changes which will impact the annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

**Actuarial Assumptions - OPF**

OPF's total pension liability as of December 31, 2015, is based on the results of an actuarial valuation date of January 1, 2015, and rolled forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67 as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements, and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of January 1, 2015, are presented below.

Valuation Date	January 1, 2015
Actuarial Cost Method	entry age normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.6 percent and 3 percent simple

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

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

The long-term expected rate of return on pension plan investments was determined using a building block approach and assumes a time horizon as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015, are summarized below.

Asset Class	Target Allocation	Ten Year Expected Real Rate of Return**	Ten Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00 %	0.00 %	0.00 %
Domestic Equities	16.00	6.50	7.80
Non-U.S. Equities	16.00	6.70	8.00
Core Fixed Income*	20.00	3.50	5.35
Global Inflation Protected*	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	8.00	9.65	10.75
Total	<u>120.00 %</u>		

Note: assumptions are geometric

\* levered 2x

\*\* numbers are net of expected inflation

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City’s Proportionate Share of the Net Pension Liability	\$8,378,812	\$6,353,043	\$4,637,016

**NOTE 15 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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

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

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

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

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed 14 percent of earnable salary and public safety and law enforcement employers contributed 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

At the beginning of 2016, OPERS maintained three health care trusts. The two cost-sharing multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees and the traditional pension and combined plans. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund the health care plans. As recommended by the OPERS actuary, the portion of the employer contribution allocated to health care beginning January 1, 2016, remained at 2 percent for both the traditional pension and combined plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a retiree medical account for member-directed plan members. The employer contribution as a percentage of covered payroll deposited into the retiree medical accounts for 2016 was 4 percent.

In March 2016, OPERS received two favorable rulings from the IRS allowing OPERS to consolidate all health care assets into the 115 Health Care Trust. Transition to the new health care trust structure occurred during 2016. OPERS Combining Statement of Changes in Fiduciary Net Position for the year ended December 31, 2016, reflects a partial year of activity in the 401(h) Health Care Trust and the VEBA Trust prior to the termination of these trust as of the end of the business day June 30, 2016, and the assets and liabilities or net position of these trusts being consolidated into the 115 Health Care Trust on July 1, 2016.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing multiple-employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$61,655, \$59,679, and \$56,597, respectively. For 2016, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

**B. Police and Fire Pension Fund**

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2016, the employer contribution allocated to the health care plan was .5 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF for the years ended December 31, 2016, 2015, and 2014, was \$435,123, \$433,126, and \$421,138, respectively, of which \$9,994, \$9,903, and \$9,626 was allocated to the health care plan. For 2016, 88 percent has been contributed for both police and firefighters with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2015 and 2014.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 16 - OTHER EMPLOYEE BENEFITS**

**A. Health Care Benefits**

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

**B. Compensated Absences**

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

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

Sick leave is earned at various rates as defined by City policy and union contracts. Employees who are part of the Ohio Patrolmen's Benevolent Association and the Fraternal Order of Police, who were hired before January 1, 2014, and who have three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave. Members of these two unions who were hired after January 1, 2014, and have five or more years of full-time service with the City are entitled to receive one-half of the value of their accumulated unused sick leave. Members of the International Association of Firefighters with five or more years of full-time service with the City are entitled to receive between 25 percent, 33 percent, and 66 percent of the value of their accumulated unused sick leave, dependent on the amount of accumulated hours. All other employees having three or more years of full-time service with the City are entitled to receive two-thirds of the value of their accumulated unused sick leave regardless of date of hire.

**NOTE 17 - NOTES PAYABLE**

The City's note transactions for the year ended December 31, 2016, were as follows:

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
<u>Governmental Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
General Fund					
Fire Truck	0.75%	\$70,000	\$0	\$70,000	\$0
Fire Truck	1.40	0	70,000	0	70,000
Special Revenue Fund					
Street Truck	0.75	13,000	0	13,000	0
Street Truck	1.40	0	13,000	0	13,000
Total Governmental Activities		<u>\$83,000</u>	<u>\$83,000</u>	<u>\$83,000</u>	<u>\$83,000</u>

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 17 - NOTES PAYABLE** (continued)

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016
<u>Business-Type Activities</u>					
<u>General Obligation Bond</u>					
<u>Anticipation Notes</u>					
Enterprise Fund					
Screw Pump	1.40%	\$0	\$580,000	\$0	\$580,00
Utility Truck	0.75	39,000	0	39,000	0
Utility Truck	1.40	0	31,200	0	31,200
Total Business-Type Activities		<u>\$39,000</u>	<u>\$611,200</u>	<u>\$39,000</u>	<u>\$611,200</u>

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

The bond anticipation notes in the General Fund, in the amount of \$70,000, were issued on July 27, 2016, to retire notes previously issued to acquire a fire truck. The notes mature on July 26, 2017.

The bond anticipation notes in the Street Maintenance Fund, in the amount of \$13,000, were issued on July 27, 2016, to retire notes previously issued to acquire two trucks. The notes mature on July 26, 2017.

The bond anticipation notes in the Sewer enterprise fund, in the amount of \$580,000, were issued on July 27, 2016, to purchase a screw pump. The notes mature on July 26, 2017. This item was not capitalized.

The bond anticipation notes in the Storm Water enterprise fund, in the amount of \$31,200, were issued on July 27, 2016, to retire notes previously issued to acquire a utility truck. The notes mature on July 26, 2017.

**NOTE 18 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2016, was as follows:

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bond Anticipation Notes						
Fire Truck	0.75%	\$625,000	\$0	\$625,000	\$0	\$0
Street Truck	0.75	52,000	0	52,000	0	0
Fire Truck	1.40	0	555,000	0	555,000	555,000
Street Truck	1.40	0	39,000	0	39,000	39,000
Total General Obligation Bond Anticipation Notes		<u>677,000</u>	<u>594,000</u>	<u>677,000</u>	<u>594,000</u>	<u>594,000</u>

(continued)

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<b><u>Governmental Activities</u></b> (continued)						
Net Pension Liability						
Ohio Public Employees Retirement System		\$1,169,209	\$530,515	\$0	\$1,699,724	\$0
Ohio Police and Fire Pension		5,093,998	1,259,045	0	6,353,043	0
Total Net Pension Liability		<u>6,263,207</u>	<u>1,789,560</u>	<u>0</u>	<u>8,052,767</u>	<u>0</u>
OPWC Loans						
#CP02L	0.00	52,347	0	13,087	39,260	13,087
Portland Way South	0.00	56,581	269,769	0	326,350	8,159
Police Liability	5.00	22,096	0	750	21,346	782
Fire Liability	5.00	83,754	0	2,841	80,913	2,963
Capital Loan Payable (Fire Truck)	2.99	259,068	0	33,825	225,243	34,837
Compensated Absences Payable		719,214	87,623	86,262	720,575	164,755
Total Governmental Activities		<u>\$8,133,267</u>	<u>\$2,740,952</u>	<u>\$813,765</u>	<u>\$10,060,454</u>	<u>\$818,583</u>
<b><u>Business-Type Activities</u></b>						
General Obligation Bonds						
2007 Electric Improvement (Original Amount \$8,952,000)	5.25%	\$5,194,000	\$0	\$605,000	\$4,589,000	\$638,000
2011 Electric Improvement (Original Amount \$2,500,000)	2.15	1,500,000	0	250,000	1,250,000	250,000
Total General Obligation Bonds		<u>6,694,000</u>	<u>0</u>	<u>855,000</u>	<u>5,839,000</u>	<u>888,000</u>
Net Pension Liability						
Ohio Public Employees Retirement System		<u>1,614,618</u>	<u>831,328</u>	<u>0</u>	<u>2,445,946</u>	<u>0</u>
OPWC Loans						
Railroad Street Waterline (Original Amount \$71,104)	0.00	23,110	0	3,555	19,555	3,555
West End Waterline (Original Amount \$140,000)	0.00	63,000	0	7,000	56,000	7,000
North Market Storm Sewer (Original Amount \$94,092)	0.00	65,865	0	18,818	47,047	18,818
Southeast Storm Sewer (Original Amount \$693,209)	0.00	693,209	0	11,553	681,656	23,107
Total OPWC Loans		<u>845,184</u>	<u>0</u>	<u>40,926</u>	<u>804,258</u>	<u>52,480</u>
OWDA Loans						
#2735 Raw Water Line (Original Amount \$480,881)	2.00	137,968	0	21,872	116,096	22,309
#3508 Water Treatment (Original Amount \$3,924,637)	2.00	2,443,538	0	126,361	2,317,177	128,900
#4088 Cheshire Subdivision (Original Amount \$983,863)	3.98	538,730	0	50,865	487,865	52,909
#4089 Sewer System Improvement (Original Amount \$1,600,253)	3.98	1,356,803	0	45,471	1,311,332	47,299
#4090 Cheshire (Original Amount \$1,232,112)	3.98	968,977	0	32,476	936,501	33,780
#4091 Water System Improvement (Original Amount \$2,218,464)	3.98	1,744,679	0	58,470	1,686,209	60,821
#4732 WWTP Bio-Solids (Original Amount \$2,762,322)	3.20	2,125,041	0	178,816	1,946,225	0

(continued)



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

	Interest Rate	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Due Within One Year
<u>Business-Type Activities</u> (continued)						
OWDA Loans (continued)						
#4873 Water Tank Rehabilitation (Original Amount \$679,864)	4.61%	\$508,177	\$0	\$29,310	\$478,867	\$30,677
#6273 WWTP Influent Upgrade (Original Amount \$662,510)	2.57	544,251	7,412	20,002	531,661	0
Total OWDA Loans		<u>10,368,164</u>	<u>7,412</u>	<u>563,643</u>	<u>9,811,933</u>	<u>376,695</u>
AMP Ohio Payable - JV 2		440,470	0	213,868	226,602	226,602
AMP Ohio Payable		731,808	0	44,437	687,371	57,798
Compensated Absences Payable		503,206	0	4,771	498,435	90,161
Total Business-Type Activities		<u>\$21,197,450</u>	<u>\$838,740</u>	<u>\$1,722,645</u>	<u>\$20,313,545</u>	<u>\$1,691,736</u>

General Obligation Bond Anticipation Notes

On July 27, 2016, the City issued \$594,000 in bond anticipation notes to retire notes previously issued to acquire a fire truck and a street truck. The notes mature on July 26, 2017.

2007 Electric Improvement General Obligation Bonds

On December 21, 2007, the City issued \$8,952,000 in unvoted general obligation bonds to retire the Electric Improvement Loan, in the amount of \$4,927,000, and to upgrade an electric substation and the related distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on January 15, 2023. As of December 31, 2016, all of the proceeds have been spent.

2011 Electric Improvement General Obligation Bonds

On October 27, 2011, the City issued \$2,500,000 in unvoted general obligation bonds to improve the City's electric distribution system. The bonds are being retired from the Electric enterprise fund. The bonds will mature on December 1, 2021. As of December 31, 2016, the City had unspent proceeds, in the amount of \$144,534.

Net Pension Liability

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund, the Police and Fire Levy, Street Maintenance, Recreation, Airport, Police Pension, and Fire Pension special revenue funds, and the Water, Sewer, Electric, and Storm Water enterprise funds.

OPWC Loans

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

OWDA Loans

OWDA loans consist of monies owed to the Ohio Water Development Authority for improvements to water and sewer lines and upgrades to the City's water and sewer treatment plants. OWDA loans are payable solely from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the loans are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the loans (on completed projects for which amortization schedules are available) is \$9,657,401. Principal and interest paid in the Water and Sewer enterprise funds for the current year were \$404,553 and \$283,921, respectively. Total net revenues for the Water and Sewer enterprise funds were \$186,327 and \$158,652, respectively.

Police and Fire Liability

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

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

Compensated Absences Payable

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

AMP Ohio Payable - JV2

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

These bonds will be paid solely from the gross revenues of the City's Electric enterprise fund after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues. The total principal and interest remaining to be paid on the bonds is \$231,872. Principal paid during 2015 was \$213,868. The Electric enterprise fund had a net loss for 2016.

AMP Ohio Payable

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

The City’s estimated share of the impaired costs at March 31, 2014, was \$1,148,904. The City received a credit of \$361,799 related to the AMPGS costs deemed to have future benefit for the project participants. Additional costs have been incurred for interest and legal fees of \$21,767 and payments were made of \$121,501 leaving a net impaired cost estimate of \$687,371. The City is reporting a payable to AMP in its business-type activities and in its Electric enterprise fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line of credit interest and legal fees) or amounts received related to the project may result in a future liability to the City. These amounts will be recorded as they become estimable.

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

The City’s legal debt margin was \$10,104,314 at December 31, 2016.

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

	Governmental Activities				
	OPWC Loans	Police and Fire Pension		Capital Loan	
	Principal	Principal	Interest	Principal	Interest
2017	\$21,246	\$3,745	\$4,306	\$34,837	\$6,736
2018	29,405	3,904	4,147	35,878	5,694
2019	29,403	4,074	3,977	36,951	4,622
2020	16,318	4,248	3,803	38,056	3,517
2021	16,317	4,430	3,621	39,194	2,379
2022-2026	81,588	25,176	15,079	40,327	1,246
2027-2031	81,587	31,068	9,187	0	0
2032-2036	81,588	25,614	2,198	0	0
2037	8,158	0	0	0	0
	<u>\$365,610</u>	<u>\$102,259</u>	<u>\$46,318</u>	<u>\$225,243</u>	<u>\$24,194</u>

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

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

Year	Business-Type Activities		
	General Obligation Bonds		OPWC Loans
	Principal	Interest	Principal
2017	\$888,000	\$254,038	\$52,480
2018	921,000	214,524	52,480
2019	958,000	173,201	43,073
2020	995,000	129,920	33,662
2021	1,036,000	84,632	33,662
2022-2026	1,041,000	41,357	138,315
2027-2031	0	0	115,535
2032-2036	0	0	115,535
2037-2041	0	0	115,535
2042-2046	0	0	103,981
	\$5,839,000	\$897,672	\$804,258

Year	OWDA Loans		AMP Ohio Payable	
	Principal	Interest	Principal	Interest
2017	\$376,695	\$240,950	\$284,400	\$5,270
2018	388,992	228,842	57,798	0
2019	401,732	216,300	57,798	0
2020	414,932	203,307	57,798	0
2021	428,611	189,845	57,798	0
2021-2026	2,090,102	739,043	288,990	0
2027-2031	2,057,967	404,474	109,391	0
2032-2035	1,175,016	100,593	0	0
	\$7,334,047	\$2,323,354	\$913,973	\$5,270

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

**NOTE 19 - FUND BALANCE**

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

Fund Balance	General	Police and Fire Levy	Other Governmental Funds
Nonspendable for:			
Materials and Supplies Inventory	\$0	\$0	\$84,302
Prepaid Items	71,978	43,121	17,557
Unclaimed Monies	17,501	0	0
Total Nonspendable	<u>89,479</u>	<u>43,121</u>	<u>101,859</u>
Restricted for:			
Airport Improvements	0	0	23,510
Depot Improvements	0	0	1,783
Drug Enforcement	0	0	44,785
Economic Development and Rehabilitation	0	0	1,105,460
Park Improvements	0	0	31,395
Park Operations	0	0	108,027
Police and Fire Operations	0	548,823	11,801
Street Construction and Maintenance	0	0	228,427
Total Restricted	<u>0</u>	<u>548,823</u>	<u>1,555,188</u>
Assigned for:			
Projected Budget Shortage	676,633	0	0
Unpaid Obligations	259,841	0	0
Total Assigned	<u>936,474</u>	<u>0</u>	<u>0</u>
Unassigned (Deficit)	<u>4,062,173</u>	<u>0</u>	<u>(232,389)</u>
Total Fund Balance	<u>\$5,088,126</u>	<u>\$591,944</u>	<u>\$1,424,658</u>

**NOTE 20 - INTERFUND TRANSFERS**

During 2016, the General Fund made transfers to the other governmental funds and to the Water, Sewer, Electric, and Storm Water enterprise funds, in the amount of \$1,147,262, \$87,963, \$83,865, \$103,547, and \$24,542, respectively, to subsidize various programs in other funds.

Other governmental funds made transfers to the Water and Sewer enterprise funds, in the amount of \$27,287 and 44,518, respectively, to move special assessment revenue related to Water and Sewer funds.

The Water enterprise fund made transfers to other governmental funds, in the amount of \$27,167, to move receipts as debt payments came due.

The Sewer enterprise fund made transfers to other governmental funds, in the amount of \$44,326, to move receipts as debt payments came due.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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

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

The Foundation's resources are invested in various securities as determined by the Board of Trustees. As of December 31, 2016, the Foundation's investments consisted of the following:

	Fair Value
Equities	\$5,617,081
Fixed Income	2,801,357
Alternative Income	1,199,053
Cash Equivalents	301,550
	<u>\$9,919,041</u>

**NOTE 22 - PUBLIC ENTITY SHARED RISK POOL**

The Public Entities Pool of Ohio (Pool) is a public entity shared risk pool which provides various risk management services to its members. The Pool is governed by a seven member board of directors; six are member representatives or elected officials and one is a representative of the pool administrator, American Risk Pooling Consultants, Inc. Each member has one vote on all issues addressed by the Board of Directors.

Participation in the Pool is by written application subject to the terms of the pool agreement. Members must continue membership for a full year and may withdraw from the Pool by giving a sixty day written notice prior to their annual anniversary. Financial information can be obtained from the Public Entities Pool of Ohio, 6797 North High Street, Suite 131, Worthington, Ohio 43085.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 23 - JOINT VENTURES**

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

The City is a participant, with twenty-one other subdivisions within the State of Ohio, in a joint venture to provide electric power to its participants on a cooperative basis, the Ohio Municipal Electric Generation Agency Joint Venture 1 (JV1). The electric generating facilities of JV1, known as the Engle Units, are located in the City of Cuyahoga Falls. Title to these six diesel-powered generating units was transferred to the twenty-one municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's eighty-five municipal electric systems. JV1 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement, to remit on a monthly basis those costs incurred from using electric generated by the joint venture. In accordance with the joint venture agreement, the City remitted \$10,748 to the joint venture in 2016 for electricity. JV1 does not have any debt outstanding. In the event of a shortfall, the Joint Venture participants are billed for their respective shares of the estimated shortfall.

The City's net investment in JV1 was \$22,465 at December 31, 2016. Complete financial statements for JV1 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of operation and maintenance expenses of each participant's system, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes, or other indebtedness payable from any revenues of the system. Under the terms of the Agreement, each financing participant is to fix, charge, and collect rates, fees, and charges at least sufficient enough to maintain a debt coverage ratio equal to 110 percent of the sum of JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2016, the City met its debt coverage obligation.

**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 23 - JOINT VENTURES** (continued)

JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The project consists of 138.65 MW of distributed generation (of which 134.081 MW is the participant's entitlement and 4.569 MW are held in reserve). Upon dissolution of JV2, the net assets will be shared by the participants on a percentage of ownership basis. JV2 is managed by AMP-Ohio, who acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of twenty year fixed rate bonds on behalf of the financing participants of JV2. The net proceeds of the bond issue, in the amount of \$45,904,712, were contributed to JV2. During 2011, AMP-Ohio retired the remaining balance of the bonds; however, the City is still responsible for paying the remainder of their obligation for this debt to AMP-Ohio. The City's net obligation for these bonds at December 31, 2016, was \$226,602 (including amounts held in the bond fund, previous billings to members, interest payable, and debt service paid and collected). The City's investment and its share of the operating results of JV2 are reported in the City's Electric enterprise fund. The City's investment in JV2 was \$571,210 at December 31, 2016. Complete financial statements for JV2 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**NOTE 24 - JOINTLY GOVERNED ORGANIZATION**

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

The CIC board consists of twenty-five members, two-fifths of whom are required by the Ohio Revised Code to be from the participating governments. Financial information can be obtained from the Galion/Polk Township Community Improvement Corporation, 419 Harding Way West, Galion, Ohio 44833.

**NOTE 25 - RELATED ORGANIZATION**

The Galion Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Mayor. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the City for operational subsidies. Although the City serves as the taxing authority and can issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. The Library is not considered part of the City and its operations are not included within the accompanying financial statements. Financial information can be obtained from the Galion Public Library, 409 Kroft Street, Galion, Ohio 44833.



**City of Galion**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2016**

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**NOTE 26 - FISCAL EMERGENCY**

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

In accordance with Section 118.06 of the Ohio Revised Code, the City is required to submit to the Commission a financial recovery plan for the City which outlines the measures to be taken to eliminate the fiscal emergency conditions. The City adopted its initial financial recovery plan in March 2005. This plan was subsequently updated in December 2005, April 2007, April 2008, December 2009, December 2010, December 2011, December 2012, December 2013, December 2014, December 2015, and December 2016.

The more significant steps taken by the City to alleviate the fiscal emergency conditions were initial staff reductions and spending cuts, an additional .5 percent income tax for police and fire operations, increased utility rates for electric, water, and sewer, and local government fund borrowing (a provision of Section 118.07 of the Ohio Revised Code). The City has eliminated all deficit cash balances and, if able to correct all issues outlined in the Report on Accounting Methods, may be released from fiscal emergency in 2017.

**NOTE 27 - CONTINGENT LIABILITIES**

**A. Litigation**

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

**B. Federal and State Grants**

For the period January 1, 2016, to December 31, 2016, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.02393400%	0.02308100%	0.02308100%
City's Proportionate Share of the Net Pension Liability	\$4,145,670	\$2,783,827	\$2,720,949
City's Covered Payroll	\$2,983,957	\$2,829,850	\$2,549,462
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	138.93%	98.37%	106.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available.

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

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

	2016	2015	2014
City's Proportion of the Net Pension Liability	0.09875600%	0.09833180%	0.09833180%
City's Proportionate Share of the Net Pension Liability	\$6,353,043	\$5,093,998	\$4,789,067
City's Covered Payroll	\$1,980,560	\$1,925,161	\$1,819,529
City's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	320.77%	264.60%	263.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available.

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$369,928	\$358,075	\$339,582	\$331,430
Contributions in Relation to the Contractually Required Contribution	<u>(369,928)</u>	<u>(358,075)</u>	<u>(339,582)</u>	<u>(331,430)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$3,082,733	\$2,983,957	\$2,829,850	\$2,549,462
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$425,129	\$423,223	\$411,512	\$332,016
Contributions in Relation to the Contractually Required Contribution	<u>(425,129)</u>	<u>(423,223)</u>	<u>(411,512)</u>	<u>(332,016)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$1,998,757	\$1,980,560	\$1,925,161	\$1,819,529
Contributions as a Percentage of Covered Payroll	21.27%	21.37%	21.38%	18.25%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$246,879	\$259,288	\$241,626	\$235,803	\$221,306	\$204,894
<u>(246,879)</u>	<u>(259,288)</u>	<u>(241,626)</u>	<u>(235,803)</u>	<u>(221,306)</u>	<u>(204,894)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,628,314	\$1,705,198	\$1,598,142	\$1,561,527	\$1,461,063	\$1,349,387
15.16%	15.21%	15.12%	15.10%	15.15%	15.18%

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313 Second St.  
Marietta, OH 45750  
740.373.0056

1907 Grand Central Ave.  
Vienna, WV 26105  
304.422.2203

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

1310 Market St., Suite 300  
Wheeling, WV 26003  
304.232.1358

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

July 28, 2017

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

To the Members of Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Galion**, Crawford County, Ohio (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 28, 2017, wherein we noted the City was placed in fiscal emergency by the State of Ohio pursuant to Ohio Revised Code Sections 118.03(A)(5), 118.03(A)(6), and 118.03(B). A fiscal emergency commission was appointed to oversee the financial affairs of the City and, as required by Ohio Revised Code Section 118.05(G), the Auditor of State served as the City's financial supervisor.

***Internal Control Over Financial Reporting***

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

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

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

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

***Compliance and Other Matters***

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 28, 2017.

***Purpose of this Report***

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



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



# Dave Yost • Auditor of State

**CITY OF GALION**

**CRAWFORD COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 19, 2017**