

**CITY OF CANAL FULTON  
STARK COUNTY, OHIO**

**INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2003**

**CITY OF CANAL FULTON  
STARK COUNTY, OHIO  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**TABLE OF CONTENTS**

<i>INDEPENDENT AUDITOR'S REPORT</i> .....	1
<i>Management's Discussion and Analysis</i> .....	4
 <i>BASIC FINANCIAL STATEMENTS</i>	
Government-wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances –Governmental Funds .....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	19
Statements of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – (Non-GAAP Basis) Individual Major Governmental Funds .....	20
Statement of Fund Net Assets – Proprietary Funds .....	22
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds .....	23
Statement of Cash Flows - Proprietary Funds .....	24
Statement of Fiduciary Net Assets – Agency Fund .....	26
Notes to the Basic Financial Statements .....	27
 Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i> .....	48

**INDEPENDENT AUDITOR'S REPORT**

Members of Council  
City of Canal Fulton, Stark County  
155 East Market Street  
Suite A  
Canal Fulton, Ohio 44614

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canal Fulton (Stark County), Ohio (the City), as of and for the year ended December 31, 2003 which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of December 31, 2003, and the respective changes in financial position and cash flows where applicable, thereof and the respective budgetary comparison for the General Fund and Police Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, during the year ended December 31, 2003, the City adopted Governmental Accounting Standards Board Statement No. 34.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

**INDEPENDENT AUDITOR'S REPORT** (continued)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.



GARY B. FINK & ASSOCIATES, INC.  
Certified Public Accountants

August 9, 2004

*FINANCIAL STATEMENTS*

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

The discussion and analysis for the City of Canal Fulton's financial statements provide and overall review of the financial activity of the City for the twelve months ended December 31, 2003. The intent of this discussion is to provide a narrative that describes the City's performance as a whole. To obtain a more detailed understanding, one should also review the basic financial statements.

### **Financial Highlights**

Financial highlights for 2003 are as follows:

- Total Net Assets increased \$427,397. This was the result of an increase in the Net Assets of governmental activities of \$509,138 which represents an 8.1 percent increase from 2002. The Net Assets of the business-type activities decreased by \$81,741 or a 1 percent decrease from 2002.
- Total Assets of Governmental Activities increased \$337,423 or 4.4 percent above the 2002 level.
- Total Assets of Business-type Activities decreased \$400,103 for a 3.7 percent decrease from the prior year.
- Total Liabilities of Governmental Activities decreased \$171,715. This is a reduction of 13.14 percent from the previous year.
- Total Outstanding Debt decreased \$419,939 or 11.04 percent during 2003.

### **Using this Annual Financial Report**

This report consists of a series of financial statements and notes to those statements. These statements are prepared and organized in a manner that allows the reader to look at the financial activities of the City of Canal Fulton as a whole and also allows the reader to obtain a more detailed view of the City's operations, if they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2003 and how they effected the operations of the City as a whole.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

### ***Reporting the City of Canal Fulton as a Whole***

#### *Statement of Net Assets and Statement of Activities*

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

These two statements report the City's net assets and changes in those assets. The change in net assets is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City's buildings and infrastructure.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two major activities:

**Governmental Activities** – Most of the City's programs and services are reported here including, general government, police, fire, public health and welfare and leisure time activities.

**Business-Type Activities** – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The City's business-type activities are water and sewer.

***Reporting on the Most Significant Funds of the City of Canal Fulton***

*Fund Financial Statements*

The analysis of the City's major funds begins on page 9. Fund financial reports give a detailed report of the activities within the funds. The City currently has eighteen funds, as presented in this report. These funds are in existence to provide a multitude of services to the citizens of Canal Fulton. Some funds provide for police, fire and emergency medical service protection, streets, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. One also provides health care for the City's employees. Each fund is in some ways an entity unto itself. Each fund has a designated revenue stream and restricted uses for the monies within the fund.

In this report, the focus is on five major funds, the General Fund, the Police Fund, the Federal Highway Administration Grant Fund, the Water Fund and the Sewer Fund.

***Governmental Funds*** All of the City's major activities (excluding the Utility Department) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the modified accrual method. This method reports cash and like-cash items that can be converted into cash. This shows what level of financial resources are available or will be available to provide the services that the general government will provide in the near future. These services include police, fire and emergency medical service protection, as well as improving and maintaining the City's streets. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements.

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

**The City of Canal Fulton as a Whole**

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2003 as they compare to 2002.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets</b>						
Current and Other Assets	\$2,462,314	\$2,161,083	\$1,427,870	\$1,643,679	\$3,890,184	\$3,804,762
Capital Assets, Net	5,470,879	5,434,687	8,867,570	9,033,701	14,338,449	14,468,388
<i>Total Assets</i>	<u>7,933,193</u>	<u>7,595,770</u>	<u>10,295,440</u>	<u>10,677,380</u>	<u>18,228,633</u>	<u>18,273,150</u>
<b>Liabilities</b>						
Current Liabilities	446,553	471,167	25,533	56,046	472,086	527,213
Long-Term Liabilities:						
Due Within One Year	150,529	150,825	255,651	280,543	406,180	431,368
Due in More Than One Year	537,927	684,732	2,499,886	2,744,680	3,037,813	3,429,412
<i>Total Liabilities</i>	<u>1,135,009</u>	<u>1,306,724</u>	<u>2,781,070</u>	<u>3,081,269</u>	<u>3,916,079</u>	<u>4,387,993</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	4,824,097	4,643,972	6,131,925	6,028,943	10,956,022	10,672,915
Restricted for:						
Capital Projects	593,496	452,551	0	0	593,496	452,551
Debt Service	50,957	62,444	0	0	50,957	62,444
Street Repair and Maintenance	226,850	242,055	0	0	226,850	242,055
Fire Protection	92,190	38,681	0	0	92,190	38,681
Other Purposes	17,434	21,636	0	0	17,434	21,636
Unrestricted	993,160	827,707	1,382,445	1,567,168	2,375,605	2,394,875
<i>Total Net Assets</i>	<u>\$6,798,184</u>	<u>\$6,289,046</u>	<u>\$7,514,370</u>	<u>\$7,596,111</u>	<u>\$14,312,554</u>	<u>\$13,885,157</u>

Total assets decreased in 2003 by \$44,517. This decrease was the result of a decrease in capital assets of \$129,939 which was offset by an increase in current assets of \$85,422. The decrease in capital assets is due to the ordinary, annual depreciation of capitalized assets.

Total liabilities decreased by \$471,914 in 2003. The total liabilities of governmental activities decreased by \$171,715 while the liabilities of the business-type activities decreased by \$300,199. These decreases were due primarily to the annual principle payments on debt, along with the final payment of an OWDA Loan. The OWDA Loan was for the construction of the Wastewater Treatment Plant.

Total net assets increased by \$427,397. This was the result of a decrease in total liabilities and an increase in capital assets.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

Table 2 shows the changes in net assets for the year ended December 31, 2003 for both our Governmental activities and our Business-Type activities. Since this is the first year the City of Canal Fulton has prepared financial statements following GASB Statement 34, revenue and expense comparisons to the year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

**Table 2**  
**Change in Net Assets**

	Governmental Activities 2003	Business - Type Activities 2003	Total 2003
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$112,499	\$1,314,994	\$1,427,493
Operating Grants and Contributions	192,535	0	192,535
Capital Grants and Contributions	341,124	0	341,124
<b>Total Program Revenues</b>	<b>646,158</b>	<b>1,314,994</b>	<b>1,961,152</b>
General Revenues:			
Property Taxes	324,787	0	324,787
Income Taxes	1,167,709	0	1,167,709
Grants and Entitlements	189,174	0	189,174
Interest	47,585	0	47,585
Other	54,693	14,194	68,887
<b>Total General Revenues</b>	<b>1,783,948</b>	<b>14,194</b>	<b>1,798,142</b>
<b>Total Revenues</b>	<b>2,430,106</b>	<b>1,329,188</b>	<b>3,759,294</b>
<b>Program Expenses</b>			
General Government	443,406	0	443,406
Security of Persons and Property	935,449	0	935,449
Transportation	408,342	0	408,342
Community Environment	13,583	0	13,583
Leisure Time Activities	88,563	0	88,563
Interest and Fiscal Charges	31,625	46,128	77,753
Enterprise Operations:	0	0	0
Water	0	643,146	643,146
Sewer	0	721,655	721,655
<b>Total Program Expenses</b>	<b>1,920,968</b>	<b>1,410,929</b>	<b>3,331,897</b>
<b>Increase/(Decrease) in Net Assets</b>	<b>509,138</b>	<b>(81,741)</b>	<b>427,397</b>
<b>Net Assets Beginning of Year</b>	<b>6,289,046</b>	<b>7,596,111</b>	<b>13,885,157</b>
<b>Net Assets End of Year</b>	<b>\$6,798,184</b>	<b>\$7,514,370</b>	<b>\$14,312,554</b>

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

***Governmental Activities***

The funding for governmental activities comes from several different sources, the most significant being the City's municipal income tax. Other prominent sources are property taxes, intergovernmental revenue, charges for services, and interest.

The City's income tax was established to be effective January 1, 1984 at a rate of 0.50 percent. This rate was later increased to .75 percent effective January 1, 1996 and further increased to 1.00 percent effective January 1, 2001. It is at that level as of December 31, 2003. Effective January 1, 2002, the City allowed a 50 percent credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. In the November, 2003 election, the voters of Canal Fulton elected to increase the income tax rate to 1.10 percent effective January 1, 2004. On a full accrual basis, the City received income tax revenue of \$1,167,709. At the beginning of the year, the Finance Director allocated a portion of the income tax revenues to be transferred to capital outlay and general obligation debt activities, based on the needs of those funds.

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 46.5 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 7 patrolmen. The fire department is staffed by part-time volunteer firefighters. The police and fire departments each receive a 1.00 mill property tax levy. The remaining amount that is needed to operate the police department is subsidized by the general fund.

***Business-Type Activities***

The City operates a Utility Department that consists of water and sewer services. The largest part of the utilities is the water utility, which includes water administration, a water treatment plant and water distribution.

The water utility services approximately 1,900 customers which include residents of the City as well as outside-City customers. Of the total 1,900 customers, 1,774 are inside the City, and 129 are outside the City. The City's water rates are \$2.00 per thousand gallons for inside City residential customers and \$5.00 per thousand gallons for outside City residential customers.

The City's water treatment plant treats an average of 435,000 gallons of water per day with a capacity to treat an additional 400,000 per day. The raw water is supplied by five wells throughout the City. The water treatment plant was built in 1989. Currently underway are plans to extend the water line to the Northwest High School facility and plans to construct the Milan water line which will allow for an additional capacity of approximately 30,000 gallons of water per day.

The City provides sewer treatment services. The City owns and maintains sewer lines throughout the City. The City charges residential customers a minimum rate of \$12.20 and then \$2.49 for each additional 1,000 gallons. For customers who only pay sewer only, these residents pay a flat rate of \$19.64. As of December 31, 2003, the City had 43 of these accounts.

The revenues and expenses for both of these utilities are reported under the Business-type Activities in Table 2. The revenues are derived primarily from charges for services. In 2003, this amount of \$1,314,994 accounted for 99 percent of the revenues. The total expenses for the utilities were \$1,410,929, resulting in a deficit of expenses over revenues in the amount of \$81,741 for the Business-type Activities.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

**The City's Funds**

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$2,383,075 and expenditures of \$2,143,784. The City's general fund reflected a decrease in fund balance of \$533, however the ending fund balance of \$659,171 is more than ample to meet these times of lower revenues. Overall, the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

Information about the proprietary funds starts on page 22. These funds are accounted for on an accrual basis. All business-type funds had operating revenues of \$1,329,188.

***Budgeting Highlights***

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by ordinance of City Council. During 2003, five supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Intra-fund transfers within existing appropriations are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's largest funds, which are the General, Water and Sewer funds. Council receives a monthly report showing the beginning fund balance for all funds at the beginning of the year, monthly and year-to-date revenues, and the current fund balance.

Line item reports are reviewed regularly by the Finance Director. The department heads, as well as the City Manager, also monitor their appropriations to ensure the entire operation of the City operates within the appropriations.

For the General fund, original budgeted revenues were \$1,717,645, final budgeted revenues were \$1,472,149 and actual revenue collections were \$1,566,708. The majority of the increase in actual revenue over the final budgeted amounts is due to receiving more income tax revenues than expected.

Also in the General fund, the original budgeted expenditures and final budgeted expenditures were \$656,808. The actual expenditures were \$485,811. The reason for the decrease in actual expenditures as compared to budgeted expenditures was all City departments spending less than had been anticipated. The City's ending unencumbered cash balance in the general fund was \$265,556 above the final budgeted amount.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

**Capital Assets and Debt Administration**

**Capital Assets**

**Table 3**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$1,408,800	\$1,408,800	\$367,900	\$367,900	\$1,776,700	\$1,776,700
Construction in Progress	0	308,109	0	0	0	308,109
Buildings and Improvements	1,521,853	1,577,530	2,882,255	2,968,811	4,404,108	4,546,341
Equipment	75,526	54,478	51,536	0	127,062	54,478
Vehicles	186,775	163,360	0	2,378	186,775	165,738
Infrastructure						
Roads	397,047	0	0	0	397,047	0
Storm Sewers	1,880,878	1,922,410	0	0	1,880,878	1,922,410
Water Lines	0	0	2,882,983	2,950,869	2,882,983	2,950,869
Sewer Lines	0	0	2,682,896	2,743,743	2,682,896	2,743,743
<b>Totals</b>	<b>\$5,470,879</b>	<b>\$5,434,687</b>	<b>\$8,867,570</b>	<b>\$9,033,701</b>	<b>\$14,338,449</b>	<b>\$14,468,388</b>

Total Capital Assets for the City of Canal Fulton for the year ended December 31, 2003 was \$14,338,449, which reflects a decrease of \$129,939 from the 2002 ending balance of \$14,468,388. The primary cause for this decrease in Capital Assets is due to depreciation on the assets. See Note 8 in the financial statements for more information regarding the City's capital assets.

**Debt**

The outstanding debt for the City of Canal Fulton as of December 31, 2003 was \$3,382,758. This balance reflected a reduction of \$419,939 from the previous year's balance of \$3,802,365, a reduction of 11.04 percent.

**Table 4**  
**Outstanding Debt at Year End**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Special Assessment Bonds	\$48,000	\$60,000	\$0	\$0	\$48,000	\$60,000
General Obligation Bonds	598,782	730,715	0	0	598,782	730,715
Water Bonds	0	0	1,076,218	1,204,285	1,076,218	1,204,285
OWDA Loans	0	0	0	57,531	0	57,531
OPWC Loan	0	0	1,659,426	1,742,942	1,659,426	1,742,942
Capital Lease	0	6,892	0	0	0	6,892
<b>Totals</b>	<b>\$646,782</b>	<b>\$797,607</b>	<b>\$2,735,644</b>	<b>\$3,004,758</b>	<b>\$3,382,426</b>	<b>\$3,802,365</b>

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

The special assessment bonds in the Governmental activities are for the Elmridge Street Improvement Project. This is a 20 year bond that carries a 6.50 percent interest rate. The bonds will be repaid over a period of 20 years, to expire in 2007 and will be repaid using assessed property tax revenue.

The general obligation bonds are for the Downtown Improvement Project and the Police Station Construction. These carry a 2.70 percent interest rate. The bonds will be repaid over a period of time varying from 5 to 10 years. Property tax revenue and general revenues will be used to repay these bonds.

The water bonds in the Business-type activities are for the construction and expansion of the wastewater treatment plant. This debt carries interest rates of 2.6 – 4.2 percent. User fees will pay this off over a period of 10 years. This bond will be retired in 2011.

The Ohio Public Works Commission Loan (OPWC) is comprised of five separate, zero percent interest loans. The purpose of these loans are for the construction and improvement of various water and sewer projects, most notable is the Water Treatment Plant and Wellfield Expansion project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired anywhere from 2015 to 2022.

See Note 10 in the financial statements for more information regarding the City's debt.

#### **Current Financial Issues**

The City of Canal Fulton remains financially sound, even through the economic downturn that began in 2001 and continued through 2003. Over the last ten years, income tax collections have increased from \$425,403, in 1993 to \$1,076,926 in 2003 or 153 percent from the year 1993, on a cash basis. Our income tax collections are directed to, on a floating amount that is reviewed yearly, to capital improvements and the general fund which allows the City to be able to accomplish numerous projects throughout Canal Fulton without having to increase the debt burden of the City. As of the end of 2003, the City only had 11 outstanding debt issues. The majority, or 81 percent, of the debt is for the City's water and sewer utilities and will be repaid from user fees.

The City is continuing to grow through annexation. In 2003, an annexation of 157 acres brought new commercial, industrial, business and some new residential opportunities into the City.

In light of the recent economy, the City has also made a conscious effort to keep operating expenses within the previous year's levels. An example of this cost containing effort is the agreement that the City has with Lawrence Township to provide alternating day coverage for fire and EMS protection. This agreement provides for an alternating, weekly coverage for 12 hours each day by either the City's or the Townships fire/ems departments. The goal is to increase the efficiency of the departments as well as contain personnel costs by reducing overtime and by sharing the costs between the two departments.

As we go into 2004, the Administration has made it a priority to review our current fee schedules to determine if the various rates we are currently charging are adequate, considering our current operations. These fees include our park shelter fees and water rates. In the upcoming year, the City intends to monitor its utility rates for all City customers in order to make the utility rates more representative of the actual cost of producing, treating and administering the utilities. Both the administration and City Council have declared their intention of reviewing rates on a more frequent basis.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*Unaudited*

---

The City of Canal Fulton has committed itself to excellence in financial reporting. We are reporting under the requirements of GASB statement 34. 2003 is also the first year that the City is reporting in accordance with generally accepted accounting principles (GAAP).

The preparation of the report could not have been accomplished without the knowledge and dedication of a number of dedicated individuals who deserve recognition for their efforts. The City of Canal Fulton wishes to extend sincere thanks to the highly knowledgeable and helpful members from the Auditor of State's office that helped make this report a reality. Also, the Finance Director would like to extend his appreciation to all department members who had a helping hand in the creation of this report.

**Contacting the City's Finance Department**

This report is intended to provide our citizens and anyone interested in the financial aspects of the City of Canal Fulton a general overview of our financial operation. If there are any questions, please feel free to contact the Finance Director Michael J. Rodino, City of Canal Fulton, 155 E. Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at [www.cityofcanalfulton.org](http://www.cityofcanalfulton.org).

**City of Canal Fulton, Ohio**

*Statement of Net Assets*

*December 31, 2003*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,571,250	\$1,300,640	\$2,871,890
Accounts Receivable	11,356	118,984	130,340
Internal Balances	4,734	(4,734)	0
Intergovernmental Receivable	216,098	12,980	229,078
Income Tax Receivable	334,411	0	334,411
Property Taxes Receivable	303,492	0	303,492
Special Assessment Receivable	20,973	0	20,973
Nondepreciable Capital Assets	1,408,800	367,900	1,776,700
Depreciable Capital Assets, Net	4,062,079	8,499,670	12,561,749
<i>Total Assets</i>	<u>7,933,193</u>	<u>10,295,440</u>	<u>18,228,633</u>
<b>Liabilities</b>			
Accounts Payable	50,107	8,489	58,596
Accrued Wages	7,003	4,662	11,665
Vacation Benefits Payable	7,842	2,534	10,376
Intergovernmental Payable	46,751	7,160	53,911
Accrued Interest Payable	1,765	2,688	4,453
Deferred Revenue	320,107	0	320,107
Claims Payable	12,978	0	12,978
Long-Term Liabilities:			
Due Within One Year	150,529	255,651	406,180
Due In More Than One Year	537,927	2,499,886	3,037,813
<i>Total Liabilities</i>	<u>1,135,009</u>	<u>2,781,070</u>	<u>3,916,079</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,824,097	6,131,925	10,956,022
Restricted for:			
Capital Projects	593,496	0	593,496
Debt Service	50,957	0	50,957
Street Repair and Maintenance	226,850	0	226,850
Fire Protection	92,190	0	92,190
Other Purposes	17,434	0	17,434
Unrestricted	993,160	1,382,445	2,375,605
<i>Total Net Assets</i>	<u>\$6,798,184</u>	<u>\$7,514,370</u>	<u>\$14,312,554</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2003

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$443,406	\$27,047	\$581	\$17,600
Security of Persons and Property	935,449	68,088	8,303	0
Transportation	408,342	0	183,551	323,524
Community Environment	13,583	0	100	0
Leisure Time Activities	88,563	17,364	0	0
Interest and Fiscal Charges	31,625	0	0	0
<i>Total Governmental Activities</i>	<u>1,920,968</u>	<u>112,499</u>	<u>192,535</u>	<u>341,124</u>
<b>Business-Type Activities:</b>				
Water	686,751	624,752	0	0
Sewer	724,178	690,242	0	0
<i>Total Business-Type Activities</i>	<u>1,410,929</u>	<u>1,314,994</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$3,331,897</u>	<u>\$1,427,493</u>	<u>\$192,535</u>	<u>\$341,124</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Law Enforcement

    Fire Protection

Income Tax Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

*Total General Revenues*

Change in Net Assets

*Net Assets Beginning of Year - See Note 4*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$398,178)	\$0	(\$398,178)
(859,058)	0	(859,058)
98,733	0	98,733
(13,483)	0	(13,483)
(71,199)	0	(71,199)
(31,625)	0	(31,625)
<u>(1,274,810)</u>	<u>0</u>	<u>(1,274,810)</u>
0	(61,999)	(61,999)
<u>0</u>	<u>(33,936)</u>	<u>(33,936)</u>
<u>0</u>	<u>(95,935)</u>	<u>(95,935)</u>
<u>(1,274,810)</u>	<u>(95,935)</u>	<u>(1,370,745)</u>
200,818	0	200,818
61,984	0	61,984
61,985	0	61,985
1,167,709	0	1,167,709
189,174	0	189,174
47,585	0	47,585
54,693	14,194	68,887
<u>1,783,948</u>	<u>14,194</u>	<u>1,798,142</u>
509,138	(81,741)	427,397
<u>6,289,046</u>	<u>7,596,111</u>	<u>13,885,157</u>
<u>\$6,798,184</u>	<u>\$7,514,370</u>	<u>\$14,312,554</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2003*

	<u>General</u>	<u>Police</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$567,388	\$32,054	\$969,119	\$1,568,561
Accounts Receivable	0	106	11,250	11,356
Intergovernmental Receivable	122,469	7,544	86,085	216,098
Income Taxes Receivable	334,411	0	0	334,411
Property Taxes Receivable	178,344	62,574	62,574	303,492
Special Assessments Receivable	3,782	0	17,191	20,973
<i>Total Assets</i>	<u>\$1,206,394</u>	<u>\$102,278</u>	<u>\$1,146,219</u>	<u>\$2,454,891</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$1,354	\$1,174	\$47,579	\$50,107
Accrued Wages	1,262	4,034	1,707	7,003
Vacation Benefits Payable	1,680	2,907	3,255	7,842
Intergovernmental Payable	2,706	5,698	19,475	27,879
Deferred Revenue	540,221	70,118	156,934	767,273
<i>Total Liabilities</i>	<u>547,223</u>	<u>83,931</u>	<u>228,950</u>	<u>860,104</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	31,592	3,971	58,780	94,343
Unreserved:				
Undesignated, Reported in:				
General Fund	627,579	0	0	627,579
Special Revenue Funds	0	14,376	273,666	288,042
Debt Service Funds	0	0	35,531	35,531
Capital Projects Funds	0	0	549,292	549,292
<i>Total Fund Balances</i>	<u>659,171</u>	<u>18,347</u>	<u>917,269</u>	<u>1,594,787</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,206,394</u>	<u>\$102,278</u>	<u>\$1,146,219</u>	<u>\$2,454,891</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2003*

<b>Total Governmental Fund Balances</b>	<b>\$1,594,787</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,470,879
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	4,949
Income Taxes	247,319
Grants	170,448
Charges for Services	3,477
Special Assessments	20,973
Total	447,166
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental-type activities in the statement of net assets.	(10,289)
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(18,872)
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.	4,734
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(1,765)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(598,782)
Special Assessment Bonds	(48,000)
Compensated Absences	(41,674)
Total	(688,456)
<i>Net Assets of Governmental Activities</i>	<b>\$6,798,184</b>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2003*

	General	Police	Federal Highway Administration Grant	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$200,821	\$62,026	\$0	\$62,027	\$324,874
Income Taxes	1,100,569	0	0	0	1,100,569
Charges for Services	10,775	0	0	52,704	63,479
Fines, Licenses and Permits	33,234	1,412	0	10,361	45,007
Intergovernmental	182,130	7,357	323,524	214,089	727,100
Special Assessments	0	0	0	18,709	18,709
Interest	47,585	0	0	0	47,585
Contributions and Donations	581	125	0	353	1,059
Other	8,048	3,731	0	42,914	54,693
<i>Total Revenues</i>	<u>1,583,743</u>	<u>74,651</u>	<u>323,524</u>	<u>401,157</u>	<u>2,383,075</u>
<b>Expenditures</b>					
Current:					
General Government	418,630	0	0	0	418,630
Security of Persons and Property	0	625,317	0	254,151	879,468
Transportation	14,114	0	0	273,748	287,862
Community Environment	0	0	0	7,061	7,061
Leisure Time Activities	14,867	0	0	0	14,867
Capital Outlay	0	0	286,798	66,378	353,176
Debt Service:					
Principal Retirement	0	0	0	150,825	150,825
Interest and Fiscal Charges	0	0	0	31,895	31,895
<i>Total Expenditures</i>	<u>447,611</u>	<u>625,317</u>	<u>286,798</u>	<u>784,058</u>	<u>2,143,784</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,136,132</u>	<u>(550,666)</u>	<u>36,726</u>	<u>(382,901)</u>	<u>239,291</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	587,609	0	608,491	1,196,100
Transfers Out	(1,136,665)	0	0	(59,435)	(1,196,100)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,136,665)</u>	<u>587,609</u>	<u>0</u>	<u>549,056</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(533)	36,943	36,726	166,155	239,291
<i>Fund Balances (Deficit) Beginning of Year - Restated (See Note 4)</i>	<u>659,704</u>	<u>(18,596)</u>	<u>(36,726)</u>	<u>751,114</u>	<u>1,355,496</u>
<i>Fund Balances End of Year</i>	<u>\$659,171</u>	<u>\$18,347</u>	<u>\$0</u>	<u>\$917,269</u>	<u>\$1,594,787</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2003*

---

**Net Change in Fund Balances - Total Governmental Funds** \$239,291

*Amounts reported for governmental activities in the  
statement of activities are different because*

Governmental funds report capital outlay as an expenditure.

However, in 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 period.

Capital Asset Additions	244,301	
Current Year Depreciation	(208,109)	
Total		36,192

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

Property Taxes	(87)	
Income Taxes	67,140	
Grants	(5,326)	
Special Assessments	(17,257)	
Charges for Services	2,561	
Total		47,031

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 150,825

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 270

Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	(3,724)	
Pension Obligation	19,713	
Total		15,989

The internal service funds used by management to charge the cost of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 19,540

*Change in Net Assets of Governmental Activities* \$509,138

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$170,000	\$170,000	\$200,821	\$30,821
Income Taxes	1,015,050	1,015,050	1,076,926	61,876
Charges for Services	4,462	2,405	10,775	8,370
Fines, Licenses and Permits	50,173	27,046	32,666	5,620
Intergovernmental	271,906	146,573	183,380	36,807
Interest	167,097	90,075	47,585	(42,490)
Contributions and Donations	0	0	581	581
Other	38,957	21,000	13,974	(7,026)
<i>Total Revenues</i>	<u>1,717,645</u>	<u>1,472,149</u>	<u>1,566,708</u>	<u>94,559</u>
<b>Expenditures</b>				
Current:				
General Government	609,039	609,039	444,668	164,371
Transportation	15,000	15,000	14,114	886
Leisure Time Activities	32,769	32,769	27,029	5,740
<i>Total Expenditures</i>	<u>656,808</u>	<u>656,808</u>	<u>485,811</u>	<u>170,997</u>
<i>Excess of Revenues Over Expenditures</i>	1,060,837	815,341	1,080,897	265,556
<b>Other Financing Uses</b>				
Transfers Out	(1,382,162)	(1,136,665)	(1,136,665)	0
<i>Net Change in Fund Balance</i>	(321,325)	(321,324)	(55,768)	265,556
<i>Fund Balance Beginning of Year</i>	517,039	517,039	517,039	0
Prior Year Encumbrances Appropriated	74,525	74,525	74,525	0
<i>Fund Balance End of Year</i>	<u>\$270,239</u>	<u>\$270,240</u>	<u>\$535,796</u>	<u>\$265,556</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Police Fund*  
*For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property Taxes	\$60,380	\$60,380	\$62,026	\$1,646
Fines, Licenses and Permits	2,235	2,235	1,506	(729)
Intergovernmental	7,000	7,000	7,357	357
Contributions and Donations	0	0	125	125
Other	0	0	3,731	3,731
<i>Total Revenues</i>	69,615	69,615	74,745	5,130
<b>Expenditures</b>				
Current:				
Security of Persons and Property	663,051	663,051	640,098	22,953
<i>Excess of Revenues Under Expenditures</i>	(593,436)	(593,436)	(565,353)	28,083
<b>Other Financing Sources</b>				
Transfers In	587,609	587,609	587,609	0
<i>Net Change in Fund Balance</i>	(5,827)	(5,827)	22,256	28,083
<i>Fund Balance Beginning of Year</i>	1,677	1,677	1,677	0
Prior Year Encumbrances Appropriated	4,150	4,150	4,150	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$28,083</u>	<u>\$28,083</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**

*Statement of Fund Net Assets*

*Proprietary Funds*

*December 31, 2003*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Assets</b>				
<i>Current Assets:</i>				
Equity in Pooled Cash and Cash Equivalents	\$503,255	\$797,385	\$1,300,640	\$2,689
Receivables:				
Accounts	59,207	59,777	118,984	0
Intergovernmental	0	12,980	12,980	0
<i>Total Current Assets</i>	<u>562,462</u>	<u>870,142</u>	<u>1,432,604</u>	<u>2,689</u>
<i>Non-Current Assets:</i>				
Land	140,000	227,900	367,900	
Depreciable Capital Assets, Net	3,870,594	4,629,076	8,499,670	0
<i>Total Non-Current Assets</i>	<u>4,010,594</u>	<u>4,856,976</u>	<u>8,867,570</u>	<u>0</u>
<i>Total Assets</i>	<u>4,573,056</u>	<u>5,727,118</u>	<u>10,300,174</u>	<u>2,689</u>
<b>Liabilities</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$2,605	\$5,884	\$8,489	\$0
Accrued Wages	2,391	2,271	4,662	0
Intergovernmental Payable	3,685	3,475	7,160	0
Vacation Benefits Payable	1,377	1,157	2,534	0
Accrued Interest Payable	2,688	0	2,688	0
Bonds Payable	131,471	0	131,471	0
OPWC Loans	94,945	29,235	124,180	0
Claims Payable	0	0	0	12,978
<i>Total Current Liabilities</i>	<u>239,162</u>	<u>42,022</u>	<u>281,184</u>	<u>12,978</u>
<i>Long-Term Liabilities:</i>				
Compensated Absences Payable	10,311	9,582	19,893	0
Bonds Payable (net of current portion)	944,747	0	944,747	0
OPWC Loans Payable (net of current portion)	821,281	713,965	1,535,246	0
<i>Total Long-Term Liabilities</i>	<u>1,776,339</u>	<u>723,547</u>	<u>2,499,886</u>	<u>0</u>
<i>Total Liabilities</i>	<u>2,015,501</u>	<u>765,569</u>	<u>2,781,070</u>	<u>12,978</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	2,018,149	4,113,776	6,131,925	0
Unrestricted (Deficit)	539,406	847,773	1,387,179	(10,289)
<i>Total Net Assets (Deficit)</i>	<u>\$2,557,555</u>	<u>\$4,961,549</u>	<u>7,519,104</u>	<u>(\$10,289)</u>

Some amounts reported for business-type activities in the statement of net assets are different because their share of internal service fund assets and liabilities is included.

	(4,734)
Net assets of business-type activities	<u>\$7,514,370</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2003*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Operating Revenues</b>				
Charges for Services	\$624,752	\$690,242	\$1,314,994	\$203,263
Other	1,952	12,242	14,194	0
<i>Total Operating Revenues</i>	<u>626,704</u>	<u>702,484</u>	<u>1,329,188</u>	<u>203,263</u>
<b>Operating Expenses</b>				
Personal Services	293,838	283,525	577,363	0
Contractual Services	166,068	215,663	381,731	160,772
Materials and Supplies	98,093	98,597	196,690	0
Depreciation	92,525	130,924	223,449	0
Other	944	1,268	2,212	0
Claims	0	0	0	6,307
<i>Total Operating Expenses</i>	<u>651,468</u>	<u>729,977</u>	<u>1,381,445</u>	<u>167,079</u>
<i>Operating Income (Loss)</i>	(24,764)	(27,493)	(52,257)	36,184
<b>Non-Operating Revenues (Expenses)</b>				
Interest and Fiscal Charges	(43,605)	(2,523)	(46,128)	0
<i>Change in Net Assets</i>	(68,369)	(30,016)	(98,385)	36,184
<i>Net Assets Beginning of Year - Restated (See Note 4)</i>	<u>2,625,924</u>	<u>4,991,565</u>		<u>(46,473)</u>
<i>Net Assets End of Year</i>	<u>\$2,557,555</u>	<u>\$4,961,549</u>		<u>(\$10,289)</u>

Some amounts reported for business-type activities in the statement of activities are different because their share of the change in internal service fund assets and liabilities is included.

	16,644
Change in net assets of business-type activities	(\$81,741)

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2003

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$633,725	\$687,172	\$1,320,897	\$0
Cash Received from Transactions with Other Funds	0	0	0	203,263
Other Cash Receipts	1,952	12,242	14,194	0
Cash Payments to Employees for Services	(307,661)	(296,566)	(604,227)	0
Cash Payments for Goods and Services	(266,670)	(313,222)	(579,892)	(4,875)
Cash Payments for Claims	0	0	0	(197,201)
Other Cash Payments	(944)	(1,268)	(2,212)	0
<i>Net Cash Provided by Operating Activities</i>	60,402	88,358	148,760	1,187
<b>Cash Flows from Capital and Related Financing Activities</b>				
Principal Paid on Bonds	(128,067)	0	(128,067)	0
Interest Paid on Bonds	(21,858)	0	(21,858)	0
Principal Paid on OWDA Loans	0	(57,531)	(57,531)	0
Interest Paid on OWDA Loans	0	(15,591)	(15,591)	0
Principal Paid on OPWC Loans	(55,280)	(39,665)	(94,945)	0
Payments for Capital Acquisitions	(20,114)	(37,204)	(57,318)	0
<i>Net Cash Used in Capital and Related Financing Activities</i>	(225,319)	(149,991)	(375,310)	0
<i>Net Decrease in Cash and Cash Equivalents</i>	(164,917)	(61,633)	(226,550)	1,187
<i>Cash and Cash Equivalents Beginning of Year</i>	668,172	859,018	1,527,190	1,502
<i>Cash and Cash Equivalents End of Year</i>	\$503,255	\$797,385	\$1,300,640	\$2,689

See accompanying notes to the basic financial statements

(continued)

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2003

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating Income (Loss)	(\$24,764)	(\$27,493)	(\$52,257)	\$36,184
Adjustments:				
Depreciation	92,525	130,924	223,449	0
(Increase) Decrease in Assets:				
Accounts Receivable	8,973	5,028	14,001	0
Intergovernmental Receivable	0	(8,098)	(8,098)	0
Increase (Decrease) in Liabilities:				
Accounts Payable	(2,509)	3,638	1,129	0
Vacation Benefits Payable	(1,309)	(1,173)	(2,482)	0
Accrued Wages	(5,891)	(5,939)	(11,830)	0
Compensated Absences Payable	(705)	133	(572)	0
Intergovernmental Payable	(5,918)	(8,662)	(14,580)	0
Claims Payable	0	0	0	(34,997)
<i>Net Cash Provided by Operating Activities</i>	<u>\$60,402</u>	<u>\$88,358</u>	<u>\$148,760</u>	<u>\$1,187</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2003*

---

---

<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,591</u>
<b>Liabilities</b>	
Undistributed Assets	<u>\$3,591</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

**Note 1 - Description of the City and Reporting Entity**

As a result of the 2000 census, Canal Fulton, formerly known as the Village of Canal Fulton became the City of Canal Fulton. The City of Canal Fulton (the "City") is a charter municipal corporation, incorporated under the laws of the State of Ohio. The City operated under a Mayor-City Manager-Council form of government. The Mayor and Council are elected to four year terms.

***Reporting Entity***

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. The primary government provides the following services to its citizens: water and sewer utilities, park operations (leisure time activities), street maintenance and repairs and police protection.

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 organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City participated in the Stark County Regional Planning Commission, the Stark Council of Governments and the Stark County District Board of Health as jointly governed organizations. Additional information is included in Note 15.

**Note 2 - Summary of Significant Accounting Policies**

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

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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 on grants 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. Internal service and 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 City's funds are classified as either governmental, proprietary or fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions 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 purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. 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 charter of the City of Canal Fulton and/or the general laws of Ohio.

***Police Special Revenue Fund*** The police fund accounts for property tax proceeds received to pay for the expenses related to police protection in the City.

***Federal Highway Administration Grant Capital Projects Fund*** The federal highway administration grant fund accounts for grant monies used for street construction in the City.

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

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

**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:

**Sewer Fund** The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

**Water Fund** The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the City.

**Internal Service Fund** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. 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 therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund. The agency fund is used for performance bonds.

### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fund Net Assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about 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; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Nonexchange Transactions*** Revenue 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 a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that 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 of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). 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 to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

#### ***E. Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City of Canal Fulton invests in repurchase agreements.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

Except for nonparticipating investment contracts, investments are reported at fair market value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2003 amounted to \$47,585 which includes \$9,389 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

***F. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred 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. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land. 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Machinery and Equipment	5-10 years
Vehicles	5 years
Infrastructure	75 years

The City's current infrastructure consists of current year road projects, storm sewers and water and sewer lines. The City plans to phase in the prior year amounts for roads and bridges in future years.

***G. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

***H. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination payments and those the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments within the next ten years). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

***J. Fund Balance Reserves***

Reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Fund balance reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances.

***K. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include law enforcement and the upkeep of the St. Helena II canal boat.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***L. 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 waste water treatment, water services and self-insurance programs. Operating expenses are necessary costs that have been incurred in

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

***M. Interfund Activity***

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

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 proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***N. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

***O. 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.

***P. Budgetary Process***

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. The Finance Director has been authorized to allocate appropriations to the department and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City 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 final amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

The appropriation resolution 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 appropriation resolution 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 Council during the year.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

**Note 3 - Budgetary Basis of Accounting**

While the City is 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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund and police 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 GAAP basis are as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and police special revenue fund.

Net Change in Fund Balance		
	General	Police
GAAP Basis	(\$533)	\$36,943
Net Adjustment for Revenue Accruals	(17,035)	94
Net Adjustment for Expenditure Accruals	(6,608)	(10,810)
Encumbrances	(31,592)	(3,971)
Budget Basis	(\$55,768)	\$22,256

**Note 4 - Change in Accounting Principles and Restatement of Prior Year Fund Equity**

For the year ended December 31, 2003, the City has for the first time presented financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from a cash basis to the modified and accrual basis of accounting for its governmental funds and activities and to the accrual basis for its business-type activities and proprietary funds in accordance with GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments". This change required that certain adjustments be recorded to the December 31, 2002, fund balances as previously reported to reflect adopting these new accounting principles.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

	General	Police	Federal Highway		Total
	<u>        </u>	<u>        </u>	Grant	Nonmajor	<u>        </u>
Cash Balances, December 31, 2002	\$591,564	\$5,827	\$0	\$754,730	\$1,352,121
Adjustments	<u>68,140</u>	<u>(24,423)</u>	<u>(36,726)</u>	<u>(3,616)</u>	<u>3,375</u>
Restated Fund Balance December 31, 2002	<u><u>\$659,704</u></u>	<u><u>(\$18,596)</u></u>	<u><u>(\$36,726)</u></u>	<u><u>\$751,114</u></u>	<u><u>\$1,355,496</u></u>
GASB 34 Adjustments:					
Capital Assets					5,434,687
Intergovernmental Payable					(38,585)
Accrued Interest					(2,035)
Internal Service Fund					(46,473)
Internal Balance					21,378
Long-Term Liabilities:					
Compensated Absences					(37,950)
Bonds Payable					(790,715)
Capital Leases Payable					(6,892)
Long-Term (Deferred) Assets					400,135
Governmental Activities Net Assets, December 31, 2002					<u><u>\$6,289,046</u></u>

The following is the transition for the enterprise funds.

	Water	Sewer	Total
	<u>        </u>	<u>        </u>	<u>        </u>
Cash Balances, December 31, 2002	\$668,172	\$859,018	\$1,527,190
Adjustments	<u>1,957,752</u>	<u>4,132,547</u>	<u>6,090,299</u>
Restated Net Assets December 31, 2002	<u><u>\$2,625,924</u></u>	<u><u>\$4,991,565</u></u>	<u><u>\$7,617,489</u></u>
Internal Service Fund Internal Balance			(21,378)
Business-Type Activities Net Assets December 31, 2002			<u><u>\$7,596,111</u></u>

**Note 5 - 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 Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

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

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

**Deposits** At year-end, the carrying amount of the City's deposits was \$2,827,713 and the bank balance was \$2,982,760. Of the bank balance:

1. \$239,420 was covered by federal depository insurance.
2. \$2,743,340 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

**Investments** The City's investments are required to be categorized to give an indication of the level or risk assumed by the City at year end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name.

	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$47,768	\$47,768

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement No. 9 Investments of the Cash Management Pool:	\$2,875,481	\$0
Repurchase Agreements	(47,768)	47,768
GASB Statement No. 3	\$2,827,713	\$47,768

**Note 6 - Receivables**

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues and accounts (billings for utility service).

Special assessments receivable expected to be collected in more than one year for the City amount to \$17,191. There are no outstanding delinquencies.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

---

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2004.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2003 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$72,226,040
Tangible Personal Property	4,907,429
Public Utility Property	1,534,280
Total	<u>\$78,667,749</u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Canal Fulton. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the general fund and the police and fire/ems special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

***B. Income Taxes***

The City levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency or business activities within the City. The City allows a credit of 50 percent for the income tax paid to another municipality, not to exceed one percent of taxable income, to a maximum of half the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the general fund.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

**C. Intergovernmental Receivables**

A summary of intergovernmental receivables follows:

	Amount
<b>Governmental Activities</b>	
Local Government	\$82,496
Gasoline Tax	55,375
Homestead and Rollback	37,085
Firefighter Grant	21,564
Estate Tax	16,637
Permissive Tax	2,941
<i>Total Governmental Activities</i>	\$216,098
 <b>Business-Type Activities</b>	
Stark County Sewer District	\$12,980

**Note 7 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

Type of Coverage	Deductible	Coverage
General Liability	\$0	\$1,000,000/\$3,000,000
Employers Liability	0	1,000,000
Employee Benefits	0	1,000,000/3,000,000
Law Enforcement Officers Liability	2,500	1,000,000/3,000,000
Public Officials Liability	1,000	1,000,000/3,000,000
Automobile	0	1,000,000
Property	1,000	7,368,573
Special Property Coverage	1,000	518,374
Electronic Equipment/Media Coverage	500	32,400
Public Employee Dishonesty	0	10,000
Boiler and Machinery	1,000	7,368,573

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City manages employee health benefits on a self-insured basis. The employee health benefit plan provides basic health and dental coverage through Enterprise Group Planning, and vision coverage through Vision Service Plan, the third party administrators of the programs, which review and pay the

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

claims. A specific excess loss coverage (stop-loss) insurance policy covers claims in excess of \$50,000 per employee, per year. The family/single premiums were \$642.73/203.15 for medical, \$83.87/\$29.10 for dental, and \$38.62/\$14.11 for vision, respectively. Enterprise Group Planning charges the City an administration fee of \$15.00 per employee per month.

The claims liability of \$12,978 reported in the self-insurance fund at December 31, 2003, is estimated by the third-party administrator and is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred by not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the internal services funds' claims liability amounts in the last year follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2003	\$47,975	\$6,307	\$41,304	\$12,978

**Note 8 - Capital Assets**

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/2002	Additions	Deductions	Balance 12/31/2003
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$1,408,800	\$0	\$0	\$1,408,800
Construction in Progress	308,109	0	(308,109)	0
Total Capital Assets not being depreciated	1,716,909	0	(308,109)	1,408,800
Capital Assets being depreciated:				
Buildings and Improvements	2,783,864	0	0	2,783,864
Equipment and Machinery	135,620	39,847	0	175,467
Vehicles	1,046,354	94,619	0	1,140,973
Infrastructure:				
Storm Sewers	3,498,772	0	0	3,498,772
Roads	0	417,944	0	417,944
Total Capital Assets being depreciated	7,464,610	552,410	0	8,017,020
Less Accumulated Depreciation:				
Buildings and Improvements	(1,206,334)	(55,677)	0	(1,262,011)
Equipment and Machinery	(81,142)	(18,799)	0	(99,941)
Vehicles	(882,994)	(71,204)	0	(954,198)
Infrastructure:				
Storm Sewers	(1,576,362)	(41,532)	0	(1,617,894)
Roads	0	(20,897)	0	(20,897)
Total Accumulated Depreciation	(3,746,832)	(208,109) *	0	(3,954,941)
Total Capital Assets being Depreciated, net	3,717,778	344,301	0	4,062,079
Governmental Activities Capital Assets, Net	\$5,434,687	\$344,301	(\$308,109)	\$5,470,879

(continued)

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

	Balance 12/31/2002	Additions	Deductions	Balance 12/31/2003
<b>Business-Type Activities</b>				
Capital Assets not being depreciated:				
Land	\$367,900	\$0	\$0	\$367,900
Capital Assets being depreciated:				
Buildings and Improvements	\$4,327,819	\$0	\$0	\$4,327,819
Equipment and Machinery	0	57,318	0	57,318
Vehicles	48,261	0	0	48,261
Infrastructure:				
Sewer Lines	4,563,535	0	0	4,563,535
Water Lines	5,091,445	0	0	5,091,445
Total Capital Assets being depreciated	14,031,060	57,318	0	14,088,378
Less Accumulated Depreciation:				
Buildings and Improvements	(1,359,008)	(86,556)	0	(1,445,564)
Equipment and Machinery	0	(5,782)	0	(5,782)
Vehicles	(45,883)	(2,378)	0	(48,261)
Infrastructure:				
Sewer Lines	(1,819,792)	(60,847)	0	(1,880,639)
Water Lines	(2,140,576)	(67,886)	0	(2,208,462)
Total Accumulated Depreciation	(5,365,259)	(223,449)	0	(5,588,708)
Total Capital Assets, being depreciated, net	8,665,801	(166,131)	0	8,499,670
Business-Type Activities Capital Assets, Net	\$9,033,701	(\$166,131)	\$0	\$8,867,570

\* Depreciation expense was charged to governmental activities as follows:

General Government	\$29,146
Security of Persons and Property	75,199
Transportation	103,764
Total Depreciation Expense	<u>\$208,109</u>

**Note 9 – Compensated Absences**

Vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten or more days of vacation per year, depending upon length of service. Vacation accumulation is limited to five days. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at a rate of 4.6 hours for each completed pay period of 80 hours. Sick leave accumulation is unlimited, but upon retirement or death, an employee can be paid twenty-five percent of accumulated, unused sick leave to a maximum of thirty days.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2003

**Note 10 - Long-Term Obligations**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities</b>			
Police Station Bonds - 2001	2.7%	\$505,000	December 1, 2006
Downtown Improvement Bonds - 2001	2.7	380,000	December 1, 2011
Street Improvement Special Assessment Bonds - 1987	6.5	233,000	December 1, 2007
<b>Business-Type Activities</b>			
OWDA Sewer Loan - 1986	9.0	550,000	July 1, 2003
OPWC Canal Street Waterline Loan - 1995	0.0	123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0.0	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2001	0.0	660,000	July 1, 2020
OPWC Denshire Sanitary Sewer Loan - 2003	0.0	417,195	July 1, 2022
OPWC Solids Handling Improvement Loan - 2003	0.0	376,100	January 1, 2023
Water Treatment Plant Bonds - 2001	2.6-4.2	810,000	December 1, 2011
Water Plant Expansion Bonds - 2001	2.6-4.2	615,000	December 1, 2011

The changes in the City's long-term obligations during the year consist of the following:

	Amount Outstanding 1/1/2003	Additions	Deletions	Amount Outstanding 12/31/2003	Amounts Due in One Year
<b>Governmental Activities</b>					
<u>General Obligation Bonds</u>					
Police Station Bonds	\$405,000	\$0	\$100,000	\$305,000	\$105,000
Downtown Improvement Bonds	325,715	0	31,933	293,782	33,529
Total General Obligation Bonds	730,715	0	131,933	598,782	138,529
Special Assessment Bonds	60,000	0	12,000	48,000	12,000
Police Cruiser Lease	6,892	0	6,892	0	0
Compensated Absences	37,950	3,724	0	41,674	0
Total Governmental Activities	\$835,557	\$3,724	\$150,825	\$688,456	\$150,529
<b>Business-Type Activities</b>					
OWDA Sewer Loan	\$57,531	\$0	\$57,531	\$0	\$0
<u>OPWC Loans</u>					
OPWC Canal Street Waterline Loan	80,051	0	9,237	70,814	6,158
OPWC Market Street Waterline Loan	209,596	0	24,184	185,412	16,122
OPWC Water Treatment Plant Loan	660,000	0	0	660,000	72,665
OPWC Denshire Sanitary Sewer Loan	417,195	0	31,290	385,905	10,430
OPWC Solids Handling Loan	376,100	0	18,805	357,295	18,805
Total OPWC Loans	1,742,942	0	83,516	1,659,426	124,180
Water Treatment Plant Bonds	694,285	0	68,067	626,218	71,471
Water Plant Expansion Bonds	510,000	0	60,000	450,000	60,000
Compensated Absences	20,465	0	572	19,893	0
Total Business-Type Activities	\$3,025,223	\$0	\$269,686	\$2,755,537	\$255,651

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

The police station bond and the downtown improvement bond will be paid from the downtown improvement debt service fund.

The special assessment bonds were issued to construct streets in the Elm Ridge Industrial Development Park and will be paid from the Elm Ridge Development special assessment debt service fund.

The OWDA sewer loan was to finance a project at the wastewater treatment plant and was paid from the sewer fund.

The OPWC water and sewer loans are to finance various waterline and sanitary sewer projects in the City and will be paid from the water and sewer funds.

Compensated absences will be paid from the general fund, the street maintenance and police special revenue funds, and the water and sewer enterprise funds.

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,260,114 and the unvoted legal debt margin was \$4,326,726. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2003 are as follows:

Governmental Activities:

Year	Police Station Bonds		Downtown Improvement Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$105,000	\$10,005	\$33,529	\$10,967	\$12,000	\$3,120
2005	100,000	6,750	33,529	9,927	12,000	2,340
2006	100,000	3,450	33,529	8,820	12,000	1,560
2007	0	0	36,723	7,664	12,000	780
2008	0	0	36,723	6,323	0	0
2009-2013	0	0	119,749	9,899	0	0
<b>Total</b>	<b>\$305,000</b>	<b>\$20,205</b>	<b>\$293,782</b>	<b>\$53,600</b>	<b>\$48,000</b>	<b>\$7,800</b>

Business-Type Activities:

Year	OPWC Loans Principal	Water Treatment Plant Bonds		Water Treatment Plant Expansion Bonds	
		Principal	Interest	Principal	Interest
2004	\$94,945	\$71,471	\$23,376	\$60,000	\$16,627
2005	94,945	71,471	21,160	60,000	14,768
2006	94,945	71,471	18,802	55,000	12,787
2007	94,945	78,277	16,336	55,000	10,890
2008	94,945	78,277	13,479	55,000	8,883
2009-2013	474,728	255,251	21,101	165,000	13,640
2014-2019	407,886	0	0	0	0
2020-2024	302,087	0	0	0	0
<b>Total</b>	<b>\$1,659,426</b>	<b>\$626,218</b>	<b>\$114,254</b>	<b>\$450,000</b>	<b>\$77,595</b>

**Note 11 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$62,026, \$53,754, and \$53,411 respectively; 99 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$1,094 made by the City and \$686 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2003, 2002, and 2001 were \$39,413, \$39,307, and \$33,819 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 72 percent has been contributed for 2003 with the remainder being reported as a liability.

## **Note 12 - Postemployment Benefits**

### ***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$36,273. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

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

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

### ***B. Ohio Police and Fire Pension Fund***

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2003*

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$25,996 for police. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

**Note 13 - Litigation**

The City management is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**Note 14 - Interfund Transfers**

Interfund transfers for the year ended December 31, 2003, consisted of the following:

	Transfer From		
Transfer to	General	Nonmajor	Total
Nonmajor funds	\$1,136,665	\$59,435	\$1,196,100

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

\$156,731 was transferred from the general fund to the downtown improvement fund to retire debt. \$130,395 was transferred from the general fund to the street maintenance fund to supplement the funds available for maintaining City streets. \$587,609 was transferred from the general fund to the police fund to supplement the funds available for police protection. \$173,164 was transferred from the general fund to the fire and EMS fund to supplement the funds available for fire fighting and emergency medical services. \$88,766 was transferred from the general fund to the capital outlay fund to supplement the funds available for capital improvements. \$59,435 was transferred from the street maintenance fund to the capital outlay fund to purchase a vehicle for the street department.

## **Note 15 – Jointly Governed Organizations**

### ***A. Stark County Regional Planning Commission***

The City participates in the Stark County Regional Planning Commission (Commission), which is a statutorily created political subdivision of the State. The commission is jointly governed among Stark County, and other cities, villages, and townships. Of the 48 member board, the City appoints one member. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short-term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2003, the City contributed \$506 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

### ***B. Stark Council of Governments***

The City participates in the Stark Council of Governments (the "Council") which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County and its municipalities and townships which direct the operations of the Stark County Metropolitan Narcotics Unit and the Stark County Crime Laboratory. Of the 27 members, the City has one appointed member. Each member's control over the operation of the Council is limited to its representation on the board. The board exercises total authority over the operation of the Council including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Council. The Council is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Council in 2003. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

### ***C. Stark County District Board of Health***

The City participates in the Stark County District Board of Health (the "Health District") which is a statutorily created political subdivision of the State. The Health District is jointly governed by Stark County townships, villages, the City of Canal Fulton, the City of Louisville, and the City of North Canton. Of the 7 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City contributed \$633 to the Health District in 2003. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

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

Members of Council  
City of Canal Fulton, Stark County  
155 East Market Street  
Suite A  
Canal Fulton, Ohio 44614

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canal Fulton (Stark County), Ohio (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 9, 2004. As discussed in Note 4, during the year ended December 31, 2003, the City adopted Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated August 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial that we have reported to Management of the City, in a separate letter dated August 9, 2004.

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

This report is intended solely for the information and use of management and the members of Council and is not intended to be and should not be used by anyone other than these specified parties.



GARY B. FINK & ASSOCIATES, INC.  
Certified Public Accountants

August 9, 2004