CITY OF CANAL FULTON
STARK COUNTY, OHIO

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

Auditor of State
Betty Montgomery

City Council
City of Canal Fulton
155 East Market St., Suite A
Canal Fulton, OH 44614

We have reviewed the *Independent Auditor's Report* of the City of Canal Fulton, Stark County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 8, 2006

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CITY OF CANAL FULTON
STARK COUNTY, OHIO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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VARNEY, FINK & ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
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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, 2004 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

Insurance claims reported in the Self-Insurance Fund (an internal service fund, included in the governmental activities and as remaining fund information) are processed by a service organization independent of the City. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls. We were therefore unable to satisfy ourselves as to the proper processing of health insurance claims expense and liabilities. Those claims represent 8.7% of expenses and .11% of accrued liabilities reported with the governmental activities, and 7.9% of the expenses and .13% of the liabilities reported with the remaining fund information.

In our opinion, except for the effects of such adjustments, if any as might have been necessary had we been able to examine certain information regarding health insurance claims reported with the governmental activities and remaining fund information as described in the preceding paragraph, 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 find information of the City, as of December 31, 2004, and the respective changes in financial position and cash flows where applicable, thereof and the respective budgetary comparison for the General Fund, Street Maintenance, Police Fund and Fire/EMS Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, during the year ended December 31, 2004, the City adopted Governmental Accounting Standards Board Statement No. 46, "Net Assets Restricted by Enabling Legislation" and Governmental Accounting Standards Board (GASB) Technical Bulletin No. 2004-02, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers".

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

January 19, 2006

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, 2004. 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 2004 are as follows:

- Total Net Assets decreased $181,341. This was the result of a decrease in the Net Assets of business-type activities of $255,214 which represents a 3.4 percent decrease from 2003. The Net Assets of the governmental activities increased by $73,873 or a 1.1 percent increase from 2003.
- Total Assets of Governmental Activities decreased $104,489 or 1.3 percent below the 2003 level.
- Total Assets of Business-type Activities increased $441,716 for a 4.3 percent increase from the prior year.
- Total Liabilities of Governmental Activities decreased $178,362. This is a reduction of 15.7 percent from the previous year.
- Total Outstanding Debt increased $341,040 or 10.3 percent during 2004.

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 2004 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 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 streets, police, fire and emergency medical service protection, capital improvements, 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 seven major funds, the General Fund, the Street Maintenance Fund, the Police Fund, the Fire/EMS Fund, the Capital Improvement 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.

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, 2004. Effective January 1, 2003, 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, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.10 percent effective January 1, 2005. On a full accrual basis, the City received income tax revenue of $1,148,589. 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 51.2 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 2,014 customers which include residents of the City as well as outside-City customers. 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. The Northwest High School waterline and the Milan Street water line has been completed and is expected to have 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 pay sewer only, these residents pay a flat rate of $19.64. As of December 31, 2004, 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 2004, this amount of $1,342,770 accounted for 93 percent of the revenues. The total expenses for the utilities were $1,698,920, resulting in a deficit of expenses over revenues in the amount of $255,214 for the Business-type Activities.

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 $2,302,568 and expenditures of $2,203,354. The City's general fund reflected a decrease in fund balance of $41,195 however the ending fund balance of $617,805 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 24. These funds are accounted for on an accrual basis. All business-type funds had operating revenues of $1,343,706 and an operating loss of approximately $200,000.

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 2004, 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 $1,485,595, final budgeted revenues were $1,485,595 and actual revenue collections were $1,661,419. 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 $591,947. The actual expenditures were $549,310. The reason for the increase in actual expenditures as compared to budgeted expenditures was all City departments spending more than had been anticipated. The City's ending unencumbered cash balance in the general fund was $108,461 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$1,408,800	$1,408,800	$313,600	$367,900	$1,722,400	$1,776,700
Construction in Progress	0	0	695,818	0	695,818	0
Buildings and Improvements	1,463,885	1,521,853	2,729,707	2,882,255	4,193,592	4,404,108
Equipment	67,239	75,526	90,381	51,536	157,620	127,062
Vehicles	121,555	186,775	22,703	0	144,258	186,775
Infrastructure						
Roads	417,422	397,047	0	0	417,422	397,047
Storm Sewers	1,840,878	1,880,878	0	0	1,840,878	1,880,878
Water Lines	0	0	2,815,097	2,882,983	2,815,097	2,882,983
Sewer Lines	0	0	2,580,516	2,682,896	2,580,516	2,682,896
Totals	$5,319,779	$5,470,879	$9,247,822	$8,867,570	$14,567,601	$14,338,449

Total Capital Assets for the City of Canal Fulton for the year ended December 31, 2004 was $14,567,601, which reflects an increase of $229,152 from the 2003 ending balance of $14,338,449. The primary cause for this increase in Capital Assets is due to additions during 2004. See Note 9 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, 2004 was $3,664,061. This balance reflected an increase of $341,040 from the previous year's balance of $3,323,021, an increase of 10.3 percent.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Special Assessment Bonds	$36,000	$48,000	$0	$0	$36,000	$48,000
General Obligation Bonds	460,253	598,782	0	0	460,253	598,782
Water Bonds	0	0	944,747	1,076,218	944,747	1,076,218
Water Improvement Notes	0	0	700,000	0	700,000	0
OPWC Loan	0	0	1,523,061	1,600,021	1,523,061	1,600,021
Totals	$496,253	$646,782	$3,167,808	$2,676,239	$3,664,061	$3,323,021

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 special assessments.

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 Notes 11 and 12 in the financial statements for more information regarding the City's debt.

Current Financial Issues

Over the last ten years, income tax collections have increased from $425,403, in 1993 to $1,161,027 in 2004 or 173 percent from the year 1993, on a cash basis. At current collection rates, the City expects an increase of over 5 percent in income tax collections. Our income tax collections are directed, on a floating amount that is reviewed yearly, to 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 2004, the City only had 10 outstanding debt issues. The majority, or 83 percent, of the debt is for the City's water and sewer utilities and will be repaid from user fees.

The City will continue to grow through annexation. In 2005, there have been parcels of unimproved farm land that is near or adjacent to the City that have been sold to developers that have expressed interest in becoming part of the City. These new parcels will eventually bring new commercial, industrial, business and some new residential opportunities into the City.

In 2006, there will be many opportunities to expand our water and sewer lines to gain additional revenue for the City. The water and sewer enterprises currently are operating at or below 50 percent capacity, thus expansion can be done at a minimal cost.

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 a new pilot program that allows a certified mechanic to oversee the maintenance of all vehicles in the fleet. A uniform maintenance program has been developed and centrally coordinated with all departments. This mechanic is also trained and certified to work on all emergency vehicles and will ensure a steady and constant evaluation of the City's vehicles. The City's Street Department shares manpower and equipment with Lawrence Township and they assist each other in completing projects on time. Many projects such as tree trimming, mosquito spraying, as well as paving the West Side Fire Station, N.W. Senior Center, and the City's streets are completed through cooperation between both departments.

The Community Park Visitor Center Project valued at $480,000 has been completed and will be a focal point for the Ohio Erie Canal Towpath. This Visitor Center will attract tourists and will be an important vehicle to promote the history of the City and the Ohio Erie Canal. Residents and nonresidents will enjoy the enhanced amenities and opportunities that the new Community Park will offer.

As we go into 2006, the Administration has made it a priority to keep costs down by seeking competitive bids on liability and hospitalization insurance and initiating a new program to more actively collect outstanding EMS collections.

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 Interim Finance Director Scott M. Svab, City of Canal Fulton, 155 E. Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at www.cityofcanalfulton.org.

City of Canal Fulton, Ohio

Statement of Net Assets

December 31, 2004

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$1,634,484	$1,354,337	$2,988,821
Accounts Receivable	11,926	112,366	124,292
Internal Balances	(16,492)	16,492	0
Intergovernmental Receivable	231,304	6,139	237,443
Income Tax Receivable	321,973	0	321,973
Property Taxes Receivable	317,293	0	317,293
Special Assessment Receivable	3,061	0	3,061
Nondepreciable Capital Assets	1,408,800	1,009,418	2,418,218
Depreciable Capital Assets, Net	3,910,979	8,238,404	12,149,383
Total Assets	7,823,328	10,737,156	18,560,484
Liabilities			
Accounts Payable	41,377	24,050	65,427
Accrued Wages	13,344	7,923	21,267
Contracts Payable	0	177,478	177,478
Vacation Benefits Payable	8,775	4,345	13,120
Intergovernmental Payable	45,372	11,574	56,946
Accrued Interest Payable	1,431	2,522	3,953
Deferred Revenue	312,643	0	312,643
Claims Payable	1,061	0	1,061
Notes Payable	0	700,000	700,000
Long-Term Liabilities:			
Due Within One Year	145,529	223,447	368,976
Due In More Than One Year	387,115	2,267,256	2,654,371
Total Liabilities	956,647	3,418,595	4,375,242
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,823,526	6,780,014	11,603,540
Restricted for:			
Capital Projects	730,438	0	730,438
Street Repair and Maintenance	304,337	0	304,337
Police Protection	26,065	0	26,065
Other Purposes	106,966	0	106,966
Unrestricted	875,349	538,547	1,413,896
Total Net Assets	$6,866,681	$7,318,561	$14,185,242

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental Activities:				
General Government	$571,051	$15,558	$675	$0
Security of Persons and Property	1,111,716	85,743	325	0
Transportation	448,806	0	298,265	47,604
Community Environment	153	0	50	0
Leisure Time Activities	17,913	11,381	33,142	0
Interest and Fiscal Charges	23,758	0	0	0
Total Governmental Activities	2,173,397	112,682	332,457	47,604
Business-Type Activities:				
Water	762,664	659,310	0	100,000
Sewer	936,256	683,460	0	0
Total Business-Type Activities	1,698,920	1,342,770	0	100,000
Total	$3,872,317	$1,455,452	$332,457	$147,604

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 - Restated (See Note 5)

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
($554,818)	$0	($554,818)
(1,025,648)	0	(1,025,648)
(102,937)	0	(102,937)
(103)	0	(103)
26,610	0	26,610
(23,758)	0	(23,758)
(1,680,654)	0	(1,680,654)
0	(3,354)	(3,354)
0	(252,796)	(252,796)
0	(256,150)	(256,150)
(1,680,654)	(256,150)	(1,936,804)
191,851	0	191,851
63,030	0	63,030
63,030	0	63,030
1,148,589	0	1,148,589
169,578	0	169,578
60,266	0	60,266
58,183	936	59,119
1,754,527	936	1,755,463
73,873	(255,214)	(181,341)
6,792,808	7,573,775	14,366,583
$6,866,681	$7,318,561	$14,185,242

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, 2004

	General	Street Maintenance	Police	Fire/ EMS	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues							
Property Taxes	$192,038	$0	$63,086	$63,086	$0	$0	$318,210
Income Taxes	1,223,322	0	0	0	0	0	1,223,322
Charges for Services	9,463	0	0	68,071	0	0	77,534
Fines, Licenses and Permits	29,349	0	911	0	0	8,593	38,853
Intergovernmental	171,912	177,215	9,046	36,509	47,604	74,110	516,396
Special Assessments	0	0	0	0	0	8,754	8,754
Interest	60,266	0	0	0	0	0	60,266
Contributions and Donations	675	0	250	75	0	50	1,050
Other	40,966	8,478	5,047	3,692	0	0	58,183
Total Revenues	1,727,991	185,693	78,340	171,433	47,604	91,507	2,302,568
Expenditures							
Current:							
General Government	494,353	0	0	0	0	2,750	497,103
Security of Persons and Property	0	0	639,963	332,867	0	9,388	982,218
Transportation	13,042	261,766	0	0	0	27,128	301,936
Community Environment	0	0	0	0	0	153	153
Leisure Time Activities	17,913	0	0	0	0	0	17,913
Capital Outlay	0	0	0	0	227,015	2,395	229,410
Debt Service:							
Principal Retirement	0	0	0	0	0	150,529	150,529
Interest and Fiscal Charges	0	0	0	0	0	24,092	24,092
Total Expenditures	525,308	261,766	639,963	332,867	227,015	216,435	2,203,354
Excess of Revenues Over (Under) Expenditures	1,202,683	(76,073)	(561,623)	(161,434)	(179,411)	(124,928)	99,214
Other Financing Sources (Uses)							
Transfers In	0	60,000	600,000	142,000	312,548	129,330	1,243,878
Transfers Out	(1,243,878)	0	0	0	0	0	(1,243,878)
Total Other Financing Sources (Uses)	(1,243,878)	60,000	600,000	142,000	312,548	129,330	0
Net Change in Fund Balances	(41,195)	(16,073)	38,377	(19,434)	133,137	4,402	99,214
Fund Balances (Deficit) Beginning of Year - Restated (See Note 5)	659,000	164,682	(122)	80,193	524,117	148,045	1,575,915
Fund Balances End of Year	$617,805	$148,609	$38,255	$60,759	$657,254	$152,447	$1,675,129

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, 2004

Net Change in Fund Balances - Total Governmental Funds		$99,214
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	83,401	
Current Year Depreciation	(218,155)	
Total		(134,754)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(16,346)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(299)	
Income Taxes	(74,733)	
Grants	32,193	
Special Assessments	(8,754)	
Charges for Services	(3,705)	
Total		(55,298)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		150,529
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		334
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		5,283
The internal service funds used by management to charge the 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.		24,911
Change in Net Assets of Governmental Activities		$73,873

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, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$178,500	$178,500	$192,038	$13,538
Income Taxes	1,025,000	1,025,000	1,161,027	136,027
Charges for Services	3,000	3,000	9,463	6,463
Fines, Licenses and Permits	28,775	28,775	24,160	(4,615)
Intergovernmental	145,320	145,320	172,824	27,504
Interest	85,000	85,000	60,266	(24,734)
Contributions and Donations	0	0	675	675
Other	20,000	20,000	40,966	20,966
Total Revenues	1,485,595	1,485,595	1,661,419	175,824
Expenditures				
Current:				
General Government	548,186	548,186	506,051	42,135
Transportation	15,300	15,300	13,042	2,258
Leisure Time Activities	28,461	28,461	30,217	(1,756)
Total Expenditures	591,947	591,947	549,310	42,637
Excess of Revenues Over Expenditures	893,648	893,648	1,112,109	218,461
Other Financing Uses				
Advances Out	(3,756)	(3,756)	(3,756)	0
Transfers Out	(1,133,878)	(1,133,878)	(1,243,878)	(110,000)
Total Other Financing Uses	(1,137,634)	(1,137,634)	(1,247,634)	(110,000)
Net Change in Fund Balance	(243,986)	(243,986)	(135,525)	108,461
Fund Balance Beginning of Year	535,796	535,796	535,796	0
Prior Year Encumbrances Appropriated	31,592	31,592	31,592	0
Fund Balance End of Year	$323,402	$323,402	$431,863	$108,461

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
Street Maintenance Fund
For the Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	$131,000	$131,000	$171,676	$40,676
Other	1,000	1,000	8,478	7,478
Total Revenues	132,000	132,000	180,154	48,154
Expenditures				
Current:				
Transportation	291,845	291,845	272,757	19,088
Excess of Revenues Under Expenditures	(159,845)	(159,845)	(92,603)	67,242
Other Financing Sources				
Transfers In	60,000	60,000	60,000	0
Net Change in Fund Balance	(99,845)	(99,845)	(32,603)	67,242
Fund Balance Beginning of Year	160,858	160,858	160,858	0
Prior Year Encumbrances Appropriated	3,851	3,851	3,851	0
Fund Balance End of Year	$64,864	$64,864	$132,106	$67,242

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, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$64,245	$64,245	$63,086	($1,159)
Fines, Licenses and Permits	1,750	1,750	1,017	(733)
Intergovernmental	7,853	7,853	9,046	1,193
Contributions and Donations	0	0	250	250
Other	0	0	5,047	5,047
Total Revenues	73,848	73,848	78,446	4,598
Expenditures				
Current:				
Security of Persons and Property	701,907	701,907	640,559	61,348
Excess of Revenues Under Expenditures	(628,059)	(628,059)	(562,113)	65,946
Other Financing Sources				
Transfers In	600,000	600,000	600,000	0
Net Change in Fund Balance	(28,059)	(28,059)	37,887	65,946
Fund Balance Beginning of Year	28,083	28,083	28,083	0
Prior Year Encumbrances Appropriated	3,971	3,971	3,971	0
Fund Balance End of Year	$3,995	$3,995	$69,941	$65,946

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
Fire/EMS Fund
For the Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	$64,245	$64,245	$63,086	($1,159)
Charges for Services	28,902	28,902	73,869	44,967
Intergovernmental	8,653	33,417	36,509	3,092
Contributions and Donations	0	0	75	75
Other	3,200	3,200	3,692	492
Total Revenues	105,000	129,764	177,231	47,467
Expenditures				
Current:				
Security of Persons and Property	315,859	340,623	339,058	1,565
Excess of Revenues Under Expenditures	(210,859)	(210,859)	(161,827)	49,032
Other Financing Sources				
Transfers In	142,000	142,000	142,000	0
Net Change in Fund Balance	(68,859)	(68,859)	(19,827)	49,032
Fund Balance Beginning of Year	79,491	79,491	79,491	0
Prior Year Encumbrances Appropriated	13,325	13,325	13,325	0
Fund Balance End of Year	$23,957	$23,957	$72,989	$49,032

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	$573,567	$780,770	$1,354,337	$36,909
Receivables:				
Accounts	56,102	56,264	112,366	0
Intergovernmental	0	6,139	6,139	0
Total Current Assets	629,669	843,173	1,472,842	36,909
Non-Current Assets:				
Nondepreciable Capital Assets	781,518	227,900	1,009,418	0
Depreciable Capital Assets, Net	3,778,096	4,460,308	8,238,404	0
Total Non-Current Assets	4,559,614	4,688,208	9,247,822	0
Total Assets	5,189,283	5,531,381	10,720,664	36,909
Liabilities				
Current Liabilities:				
Accounts Payable	$5,927	$18,123	$24,050	$0
Accrued Wages	4,246	3,677	7,923	0
Contracts Payable	88,739	88,739	177,478	0
Intergovernmental Payable	6,131	5,443	11,574	0
Vacation Benefits Payable	2,106	2,239	4,345	0
Accrued Interest Payable	2,522	0	2,522	0
Notes Payable	700,000	0	700,000	0
Bonds Payable	131,471	0	131,471	0
OPWC Loans	52,311	39,665	91,976	0
Claims Payable	0	0	0	1,061
Total Current Liabilities	993,453	157,886	1,151,339	1,061
Long-Term Liabilities:				
Compensated Absences Payable	11,499	11,396	22,895	0
Bonds Payable (net of current portion)	813,276	0	813,276	0
OPWC Loans Payable (net of current portion)	767,215	663,870	1,431,085	0
Total Long-Term Liabilities	1,591,990	675,266	2,267,256	0
Total Liabilities	2,585,443	833,152	3,418,595	1,061
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,795,341	3,984,673	6,780,014	0
Unrestricted (Deficit)	(191,501)	713,556	522,055	35,848
Total Net Assets (Deficit)	$2,603,840	$4,698,229	7,302,069	$35,848

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.	16,492
Net assets of business-type activities	$7,318,561

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, 2004

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Operating Revenues				
Charges for Services	$659,310	$683,460	$1,342,770	$235,958
Other	847	89	936	0
Total Operating Revenues	660,157	683,549	1,343,706	235,958
Operating Expenses				
Personal Services	299,068	299,453	598,521	0
Contractual Services	129,417	222,044	351,461	166,864
Materials and Supplies	158,129	183,565	341,694	0
Depreciation	92,498	175,506	268,004	0
Other	27	309	336	0
Claims	0	0	0	22,957
Total Operating Expenses	679,139	880,877	1,560,016	189,821
Operating Income (Loss)	(18,982)	(197,328)	(216,310)	46,137
Non-Operating Expenses				
Interest and Fiscal Charges	(39,838)	0	(39,838)	0
Loss on Disposal of Capital Assets	(54,300)	(65,992)	(120,292)	0
Total Non-Operating Expenses	(94,138)	(65,992)	(160,130)	0
Income (Loss) before Capital Contributions	(113,120)	(263,320)	(376,440)	46,137
Capital Contributions	100,000	0	100,000	0
Change in Net Assets	(13,120)	(263,320)	(276,440)	46,137
Net Assets Beginning of Year - Restated (See Note 5)	2,616,960	4,961,549		(10,289)
Net Assets End of Year	$2,603,840	$4,698,229		$35,848

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.

	21,226
Change in net assets of business-type activities	($255,214)

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, 2004

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Increase (Decrease) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	$662,415	$693,814	$1,356,229	$0
Cash Received from Transactions with Other Funds	0	0	0	235,958
Other Cash Receipts	847	89	936	0
Cash Payments to Employees for Services	(293,315)	(293,183)	(586,498)	0
Cash Payments for Goods and Services	(195,020)	(304,631)	(499,651)	(166,864)
Cash Payments for Claims	0	0	0	(34,874)
Other Cash Payments	(27)	(309)	(336)	0
Net Cash Provided by (Used for) Operating Activities	174,900	95,780	270,680	34,220
Cash Flows from Capital and Related Financing Activities				
Capital Contribution	100,000	0	100,000	0
Proceeds from Sale of Notes	700,000	0	700,000	0
Principal Paid on Bonds	(131,471)	0	(131,471)	0
Interest Paid on Bonds	(40,004)	0	(40,004)	0
Principal Paid on OPWC Loans	(37,295)	(39,665)	(76,960)	0
Payments for Capital Acquisitions	(695,818)	(72,730)	(768,548)	0
Net Cash Provided by (Used) in Capital and Related Financing Activities	(104,588)	(112,395)	(216,983)	0
Net Increase (Decrease) in Cash and Cash Equivalents	70,312	(16,615)	53,697	34,220
Cash and Cash Equivalents Beginning of Year	503,255	797,385	1,300,640	2,689
Cash and Cash Equivalents End of Year	$573,567	$780,770	$1,354,337	$36,909

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, 2004

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	($18,982)	($197,328)	($216,310)	$46,137
Adjustments:				
Depreciation	92,498	175,506	268,004	0
(Increase) Decrease in Assets:				
Accounts Receivable	3,105	3,513	6,618	0
Intergovernmental Receivable	0	6,841	6,841	0
Increase (Decrease) in Liabilities:				
Accounts Payable	3,322	12,239	15,561	0
Vacation Benefits Payable	729	1,082	1,811	0
Accrued Wages	1,855	1,406	3,261	0
Compensated Absences Payable	1,188	1,814	3,002	0
Contracts Payable	88,739	88,739	177,478	0
Intergovernmental Payable	2,446	1,968	4,414	0
Claims Payable	0	0	0	(11,917)
Net Cash Provided by (Used for) Operating Activities	$174,900	$95,780	$270,680	$34,220

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio

Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2004

Assets	
Equity in Pooled Cash and Cash Equivalents	$3,591
Liabilities	
Undistributed Assets	$3,591

See accompanying notes to the basic financial statements

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. The City Manager is appointed by the Mayor.

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, police and fire protection and emergency medical services.

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 and the Local Organized Governments in Cooperation, which is defined as a joint venture. Additional information is included in Note 17.

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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

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.
>
> ***Street Maintenance Special Revenue Fund*** The street maintenance fund accounts for intergovernmental revenues used to pay for maintaining the City's streets.
>
> ***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.

Fire/EMS Special Revenue Fund The fire/EMS fund accounts for property tax proceeds received to pay for the expenses related to fire protection and emergency medical services in the City.

Capital Improvement Capital Projects Fund The capital improvement fund accounts for grant monies used for capital improvements 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.

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

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

Sewer Fund The sewer fund accounts for the provision of sanitary sewer service 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 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 7). 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, 2004, but which were levied to finance year 2005 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".

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 2004 amounted to $60,266 which includes $9,284 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition 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:

Description	Estimated Lives
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. For 2003, the City reported governmental activities infrastructure for the first time. The City only reports the amounts acquired after 2002. 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.

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 government-wide statement of net assets reports $1,175,510 of restricted net assets, of which $99,736 is restricted by enabling legislation.
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 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. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

N. 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.

O. 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.

P. 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.

Q. 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.

Note 3 - Compliance

The following funds had expenditures plus encumbrances in excess of appropriations contrary to Section 5705.41, Ohio Revised Code:

	Appropriations	Expenditures	Excess
Permissive MVL Special Revenue Fund	$25,000	$26,711	$1,711
Elm Ridge Special Assessment Debt Service Fund	15,120	17,870	2,750

Contrary to 5705.14, 5705.15, and 5705.16 of the Ohio Revised Code numerous transfers were not passed by a resolution of the taxing authority of the political subdivision.

Note 4 - 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 major special revenue funds 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 basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

4. Advances-In and Advances-Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance
General and Major Special Revenue Funds

	General	Street Maintenance	Police	Fire/EMS
GAAP Basis	($41,195)	($16,073)	$38,377	($19,434)
Net Adjustment for Revenue Accruals	(66,572)	(5,539)	106	5,798
Advances Out	(3,756)	0	0	0
Net Adjustment for Expenditure Accruals	5,107	1,309	4,941	(2,164)
Encumbrances	(29,109)	(12,300)	(5,537)	(4,027)
Budget Basis	($135,525)	($32,603)	$37,887	($19,827)

Note 5 - Change in Accounting Principles and Restatement of Prior Year Fund Balance/Equity

For 2004, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers."

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 46 did not affect the presentation of the financial statements of the City. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balance of the major and nonmajor funds of the City as they were previously reported as of December 31, 2003.

	General	Street Maintenance	Police	Fire/EMS
Fund Balances, December 31, 2003	$659,171	$164,843	$18,347	$80,264
Technical Bulletin No.2004-2	(171)	(161)	(18,469)	(71)
Adjusted Fund Balance, December 31, 2003	$659,000	$164,682	($122)	$80,193

	Capital Improvements	Nonmajor	Totals
Fund Balances, December 31, 2003	$524,117	$148,045	$1,594,787
Technical Bulletin No.2004-2	0	0	(18,872)
Adjusted Fund Balance, December 31, 2003	$524,117	$148,045	$1,575,915

The amount of an OPWC loan was not finalized in 2003 and was overstated. The special assessment receivable amount was overstated in 2003.

	Water	Sewer	Total
Net Assets, December 31, 2003	$2,557,555	$4,961,549	$7,519,104
OPWC Loan	59,405	0	59,405
Adjusted Net Assets, December 31, 2003	$2,616,960	$4,961,549	$7,578,509

	Governmental Activities	Business-Type Activities	Total
Net Assets, December 31, 2003	$6,798,184	$7,514,370	$14,312,554
Special Assessment Receivable	(5,376)	0	(5,376)
OPWC Loan	0	59,405	59,405
Adjusted Net Assets, December 31, 2003	$6,792,808	$7,573,775	$14,366,583

Note 6 - Deposits

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 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.

Deposits At year-end, the carrying amount of the City's deposits was $2,992,412 and the bank balance was $3,040,442. Of the bank balance:

1. $135,768 was covered by federal depository insurance.

2. $2,904,674 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.

Note 7 - Receivables

Receivables at December 31, 2004, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues and accounts (billings for utility service).

All special assessments receivable are expected to be collected in one year. There are no outstanding delinquent special assessments receivable.

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 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

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. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. 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, 2004, was $4.50 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	$79,773,120
Tangible Personal Property	5,754,176
Public Utility Property	1,493,200
Total	$87,020,496

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, 2004 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 2004 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.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amount
Governmental Activities	
Gasoline Tax	$141,445
Local Government	70,334
Homestead and Rollback	14,824
EMS Grant	2,259
Permissive Tax	2,212
Drug and Agency Fines	230
Total Governmental Activities	$231,304
Business-Type Activities	
Stark County Sewer District	$6,139

Note 8 - 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 2004, 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	500	1,000,000
Property	1,000	9,308,420
Special Property Coverage	1,000	716,122
Electronic Equipment/Media Coverage	500	29,179
Public Employee Dishonesty	0	10,000
Boiler and Machinery	1,000	9,308,420

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 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 $694/$219 for medical and $84/$29 for dental, respectively. Enterprise Group Planning charges the City an administration fee of $16.25 per employee per month.

The claims liability of $1,061 reported in the self-insurance fund at December 31, 2004, 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
2004	12,978	22,957	34,874	1,061

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance 12/31/2003	Additions	Deductions	Balance 12/31/2004
Governmental Activities				
Capital Assets not being depreciated:				
Land	$1,408,800	$0	$0	$1,408,800
Capital Assets being depreciated:				
Buildings and Improvements	2,783,864	0	(7,637)	2,776,227
Equipment and Machinery	175,467	19,601	(45,022)	150,046
Vehicles	1,140,973	20,348	(142,264)	1,019,057
Infrastructure:				
Storm Sewers	3,498,772	0	0	3,498,772
Roads	417,944	43,452	0	461,396
Total Capital Assets being depreciated	8,017,020	83,401	(194,923)	7,905,498
Less Accumulated Depreciation:				
Buildings and Improvements	(1,262,011)	(55,677)	5,346	(1,312,342)
Equipment and Machinery	(99,941)	(24,709)	41,843	(82,807)
Vehicles	(954,198)	(74,692)	131,388	(897,502)
Infrastructure:				
Storm Sewers	(1,617,894)	(40,000)	0	(1,657,894)
Roads	(20,897)	(23,077)	0	(43,974)
Total Accumulated Depreciation	(3,954,941)	(218,155) *	178,577	(3,994,519)
Total Capital Assets being Depreciated, net	4,062,079	(134,754)	(16,346)	3,910,979
Governmental Activities Capital Assets, Net	$5,470,879	($134,754)	($16,346)	$5,319,779
Business-Type Activities				
Capital Assets not being depreciated:				
Land	$367,900	$0	($54,300)	$313,600
Construction in Progress	0	695,818	0	695,818
Total Capital Assets not being depreciated	367,900	695,818	(54,300)	1,009,418
Capital Assets being depreciated:				
Buildings and Improvements	4,327,819	0	(253,200)	4,074,619
Equipment and Machinery	57,318	47,676	0	104,994
Vehicles	48,261	25,054	(11,214)	62,101
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	14,088,378	72,730	(264,414)	13,896,694
Less Accumulated Depreciation:				
Buildings and Improvements	(1,445,564)	(86,556)	187,208	(1,344,912)
Equipment and Machinery	(5,782)	(8,831)	0	(14,613)
Vehicles	(48,261)	(2,351)	11,214	(39,398)
Infrastructure:				
Sewer Lines	(1,880,639)	(102,380)		(1,983,019)
Water Lines	(2,208,462)	(67,886)	0	(2,276,348)
Total Accumulated Depreciation	(5,588,708)	(268,004)	198,422	(5,658,290)
Total Capital Assets, being depreciated, net	8,499,670	(195,274)	(65,992)	8,238,404
Business-Type Activities Capital Assets, Net	$8,867,570	$500,544	($120,292)	$9,247,822

* Depreciation expense was charged to governmental activities as follows:

General Government	$30,831
Security of Persons and Property	82,697
Transportation	104,627
Total Depreciation Expense	$218,155

Note 10 – 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 to carry over at year end. 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.

Note 11 – Notes Payable

A summary of the note transactions for the year ended December 31, 2004, follows:

	Outstanding 12/31/03	Issued	Retired	Outstanding 12/31/04
Enterprise Funds:				
2.17% Water Improvement Notes	$0	$700,000	$0	$700,000

In 2004, the City issued $700,000 in Water Improvement Notes to finance the improvement of the waterworks system.

All of the notes are bond anticipation notes, are backed by the full faith and credit of the City, and mature March 15, 2005. The note liability is reflected in the fund which received the proceeds and will repay the debt.

Note 12 - Long-Term Obligations

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activies			
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
Business-Type Activities			
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 - 2003	0.0	600,595	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 1/1/2004	Additions	Deletions	Amount Outstanding 12/31/2004	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds					
Police Station Bonds	$305,000	$0	$105,000	$200,000	$100,000
Downtown Improvement Bonds	293,782	0	33,529	260,253	33,529
Total General Obligation Bonds	598,782	0	138,529	460,253	133,529
Special Assessment Bonds	48,000	0	12,000	36,000	12,000
Compensated Absences	41,674	0	5,283	36,391	0
Total Governmental Activities	$688,456	$0	$155,812	$532,644	$145,529
Business-Type Activities					
OPWC Loans					
OPWC Canal Street Waterline Loan	70,814	0	6,158	64,656	6,158
OPWC Market Street Waterline Loan	185,412	0	16,122	169,290	16,123
OPWC Water Treatment Plant Loan	600,595	0	15,015	585,580	30,030
OPWC Denshire Sanitary Sewer Loan	385,905	0	20,860	365,045	20,860
OPWC Solids Handling Loan	357,295	0	18,805	338,490	18,805
Total OPWC Loans	1,600,021	0	76,960	1,523,061	91,976
Water Treatment Plant Bonds	626,218	0	71,471	554,747	71,471
Water Plant Expansion Bonds	450,000	0	60,000	390,000	60,000
Compensated Absences	19,893	3,002	0	22,895	0
Total Business-Type Activities	$2,696,132	$3,002	$208,431	$2,490,703	$223,447

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 special assessment bonds are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

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, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was $9,137,152 and the unvoted legal debt margin was $4,786,127. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2004 are as follows:

Governmental Activities:

	Police Station Bonds		Downtown Improvement Bonds		Special Assessment Bonds	
Year	Principal	Interest	Principal	Interest	Principal	Interest
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	0	0	39,916	4,910	0	0
2010-2013	0	0	79,833	4,989	0	0
Total	$200,000	$10,200	$260,253	$42,633	$36,000	$4,680

Business-Type Activities:

	OPWC Loans	Water Treatment Plant Bonds		Water Treatment Plant Expansion Bonds	
Year	Principal	Principal	Interest	Principal	Interest
2005	$91,976	$71,471	$21,160	$60,000	$14,768
2006	91,976	71,471	18,802	55,000	12,787
2007	91,976	78,277	16,336	55,000	10,890
2008	91,976	78,277	13,479	55,000	8,883
2009	91,976	85,084	10,465	55,000	6,765
2010-2014	459,880	170,167	10,636	110,000	6,875
2015-2020	359,611	0	0	0	0
2021-2024	243,690	0	0	0	0
Total	$1,523,061	$554,747	$90,878	$390,000	$60,968

Note 13 - 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 or (800) 222-7377.

For the year ended December 31, 2004, 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 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 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, 2004, 2003, and 2002 were $76,368, $62,026 and $53,754 respectively; 91 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the member-directed plan for 2004 were $5,617 made by the City and $3,524 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, 2004, 2003, and 2002 were $44,093, $39,413 and $39,307 respectively, equal to the required contributions for each year. The full amount has been contributed for 2003 and 2002. 74 percent has been contributed for 2004 with the remainder being reported as a liability.

Note 14 - 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 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 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, 2003, 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 between 1.00 and 6.00 annually for the next eight years and 4.00 percent annually after eight years.

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 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were $31,986. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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.

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 2004. 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 2004 that were used to fund postemployment benefits were $29,083 for police. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was $150,853,148, which was net of member contributions of $17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 15 - Litigation

The City is not currently a party to any legal proceedings which would have a material impact on the financial statements.

Note 16 - Interfund Transfers and Balances

A. Transfers

Interfund transfers for the year ended December 31, 2004, consisted of the following:

	Transfer From
Transfer to	General
Street Maintenance	$60,000
Police	600,000
Fire/EMS	142,000
Capital Improvement	312,548
Nonmajor funds	129,330
Total	$1,243,878

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.

$60,000 was transferred from the general fund to the street maintenance fund to supplement the funds available for maintaining City streets. $600,000 was transferred from the general fund to the police fund to supplement the funds available for police protection. $142,000 was transferred from the general fund to the fire/EMS fund to supplement the funds available for fire fighting and emergency medical services. $312,548 was transferred from the general fund to the capital improvement fund to supplement the funds available for capital improvements. $129,330 was transferred from the general fund to the downtown improvement fund to retire debt.

B. Balances

Interfund balances at December 31, 2004 consisted of an interfund payable in the Elm Ridge Special Assessment debt service fund and an interfund receivable in the General fund of $3,756 to retire debt.

Note 17 – Jointly Governed Organizations and Joint Venture 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 2004, the City contributed $2,722 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 2004. 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 did not contribute any funds to the Health District in 2004. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

D. Local Organized Governments in Cooperation

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Massillon, and Hills and Dales Village, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2004, the City made contributions of $52,776, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

Note 18 – Subsequent Event

On March 15, 2005, the City rolled $700,000 of water improvement notes into $730,000 of bonds. The bonds have a 4.27 percent interest rate and mature on March 15, 2025.

VARNEY, FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 19, 2006, which was qualified since certain information related to Internal Service Fund expenses and liabilities reported with governmental activities and with remaining fund information was not available for audit. Except for this matter, 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.

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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompany Schedule of Findings as item 2004-01.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable condition described above, we consider item 2004-01 to be a material weakness.

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

Compliance and Other Matters

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 grant agreements, 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-02.

We also noted certain additional matters that we have reported to management of the City in a separate letter dated January 19, 2006.

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.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

January 19, 2006

CITY OF CANAL FULTON
STARK COUNTY, OHIO

SCHEDULE OF FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 2004

Finding 2004-01

The City has delegated employees' health insurance claims processing, which is a significant accounting function, to a third-party administrator. The City has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that health insurance claims have not been completely and accurately processed in accordance with the health insurance contract.

We recommend the City help assure the completeness and accuracy (including eligibility and allowability) of health insurance claims processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness in accordance with SAS No. 70 should provide the City with reasonable assurance that health insurance claim transactions conform to the contract.

City Response: The City has contracted with a new insurance carrier and will make sure they are provided a SAS70 report.

Finding 2004-02

Section 5705.14, 5705.15 and 5705.16, Revised Code, provides guidelines pertaining to allowable interfund transfers. Generally, before an interfund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board and such taxing authority shall prepare a petition to be presented to the tax commissioner and to the Court of Common Pleas of the County requesting approval of said transfers. The following transfers did not have the proper approval:

Transfer From	Transfer To	Amount
General Fund	Street Maintenance	$60,000
General Fund	Police Levy Fund	490,000
General Fund	Fire/EMS	142,000
General Fund	Police Levy Fund	110,000
General Fund	Capital Improvement Fund	312,548
General Fund	Other Governmental	129,330

If permissible, the Finance Director should directly record receipts or expenditures into the aforementioned funds rather than transferring these monies. Otherwise, the Finance Director should obtain proper authorization for transfers.

City Response: The City will make sure that all transfers are passed by resolutions in accordance with the Revised Code.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

CITY OF CANAL FULTON

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 20, 2006