



Dave Yost • Auditor of State



**CITY OF CANAL FULTON  
STARK COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

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

We have audited the accompanying financial statements of the governmental activities, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Fulton, Stark County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street Maintenance, Police, and Fire/EMS Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 22, 2012

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**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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The discussion and analysis for the City of Canal Fulton's (the City) financial statements provide an overall review of the financial activity of the City for the twelve months ended December 31, 2012. 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 and the notes to the basic financial statements.

### **Financial Highlights**

Financial highlights for 2012 are as follows:

- Income tax collections (on a cash basis) set a new record of \$2,215,042 exceeding the prior record income tax collections of \$2,025,816, which was achieved in 2011. This growth is attributed to impact of the regional economic growth on the City bedroom community and revitalization of commercial properties within the City.
- During 2012, the City began implementation of a comprehensive water rate increase, which was approved by City Council in December 2011 and will be phased-in over five years. This water rate increase has enabled the City to stop the historical practice of subsidizing the water utility via transfers from the general fund, and begin to repay the \$150,000 of advances made by the general fund to the water utility in 2011 in lieu of further transfers. Over the next four years, this water rate increase should enable the water utility to build operating reserves of fifteen percent of the current year operating expenditures, debt reserves of the OPWC loan payments due in January of every year, and capital reserves of \$500,000.
- In December 2012, City Council approved a sewer rate increase, which will be phased-in over four years. The sewer rate increase will enable the sewer utility to reach its minimal anticipated capital needs of the next five years. Over the next four years, this sewer rate increase should enable the sewer utility to build operating reserves of fifteen percent of the current year operating expenditures, debt reserves of the OPWC loan payments due in January of every year, and capital reserves of \$200,000.

### **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 Position and the Statement of Changes in Net Position provide information from a summary perspective showing the effects of the operations for the year 2012 and how they affected 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.

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

*Statement of Net Position and Statement of Activities*

The Statement of Net Position 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 position and changes in that position. The change in net position 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 Position 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, street maintenance, 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. Each fund is in some ways an entity unto itself. Each fund, other than the general fund, has a designated revenue stream and designated uses for the monies within the fund.

In this report, the focus is on six major funds, the general fund, the street maintenance fund, the police fund, the fire/EMS 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

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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 Position 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. The City of Canal Fulton has two enterprise operations under the proprietary classification. They are the water fund and the sewer fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

**Fiduciary Funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Canal Fulton's own programs.

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

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2012 as it compares to 2011.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Assets</b>						
Current and Other Assets	\$3,252,040	\$2,659,347	\$1,113,432	\$896,043	\$4,365,472	\$3,555,390
Capital Assets, Net	9,586,910	9,667,496	8,133,357	8,305,484	17,720,267	17,972,980
<i>Total Assets</i>	12,838,950	12,326,843	9,246,789	9,201,527	22,085,739	21,528,370
<b>Liabilities</b>						
Current Liabilities	161,640	143,329	54,931	57,725	216,571	201,054
Long-Term Liabilities:						
Due Within One Year	77,576	60,000	142,438	142,436	220,014	202,436
Due in More Than One Year	1,154,662	1,170,214	1,541,858	1,718,938	2,696,520	2,889,152
<i>Total Liabilities</i>	1,393,878	1,373,543	1,739,227	1,919,099	3,133,105	3,292,642
<b>Deferred Inflows of Resources</b>						
	281,060	307,682	0	0	281,060	307,682
<b>Net Position</b>						
Net Investment in Capital Assets	8,417,409	8,522,496	6,484,989	6,527,679	14,902,398	15,050,175
Restricted for:						
Capital Projects	203,907	277,209	0	0	203,907	277,209
Street Repair and Maintenance	448,063	390,788	0	0	448,063	390,788
Police Protection	204,411	27,444	0	0	204,411	27,444
Other Purposes	11,386	21,524	0	0	11,386	21,524
Unclaimed Monies	2,825	2,731	0	0	2,825	2,731
Unrestricted	1,876,011	1,403,426	1,022,573	754,749	2,898,584	2,158,175
<i>Total Net Position</i>	\$11,164,012	\$10,645,618	\$7,507,562	\$7,282,428	\$18,671,574	\$17,928,046

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Total assets increased in 2012 as a result of an increase in both cash and cash equivalents.

Long-term liabilities stayed at the same level due to the paying down of debt and the inception of a new capital lease.

Table 2 shows the change in net position for 2012 as it compares to 2011.

**Table 2**  
**Change in Net Position**

	Governmental Activities		Business - Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$242,252	\$189,246	\$1,538,412	\$1,391,292	\$1,780,664	\$1,580,538
Operating Grants and Contributions	324,353	348,692	0	0	324,353	348,692
Capital Grants and Contributions	75	459,472	0	32,654	75	492,126
<b>Total Program Revenues</b>	<b>566,680</b>	<b>997,410</b>	<b>1,538,412</b>	<b>1,423,946</b>	<b>2,105,092</b>	<b>2,421,356</b>
General Revenues:						
Property Taxes	344,277	287,903	0	0	344,277	287,903
Income Taxes	2,198,849	2,136,125	0	0	2,198,849	2,136,125
Grants and Entitlements	133,897	307,238	0	0	133,897	307,238
Interest	80	102	0	0	80	102
Other	63,475	75,290	3,472	1,372	66,947	76,662
<b>Total General Revenues</b>	<b>2,740,578</b>	<b>2,806,658</b>	<b>3,472</b>	<b>1,372</b>	<b>2,744,050</b>	<b>2,808,030</b>
<b>Total Revenues</b>	<b>3,307,258</b>	<b>3,804,068</b>	<b>1,541,884</b>	<b>1,425,318</b>	<b>4,849,142</b>	<b>5,229,386</b>
<b>Program Expenses</b>						
General Government	690,025	699,287	0	0	690,025	699,287
Security of Persons and Property	1,401,939	1,544,127	0	0	1,401,939	1,544,127
Transportation	439,701	391,491	0	0	439,701	391,491
Leisure Time Activities	140,071	123,679	0	0	140,071	123,679
Interest and Fiscal Charges	57,128	58,840	0	0	57,128	58,840
Water	0	0	608,981	700,984	608,981	700,984
Sewer	0	0	767,769	856,600	767,769	856,600
<b>Total Program Expenses</b>	<b>2,728,864</b>	<b>2,817,424</b>	<b>1,376,750</b>	<b>1,557,584</b>	<b>4,105,614</b>	<b>4,375,008</b>
Increase/(Decrease) in Net Position						
Before Transfers	578,394	986,644	165,134	(132,266)	743,528	854,378
Transfers	(60,000)	(60,000)	60,000	60,000	0	0
<b>Increase (Decrease) in Net Position</b>	<b>518,394</b>	<b>926,644</b>	<b>225,134</b>	<b>(72,266)</b>	<b>743,528</b>	<b>854,378</b>
Net Position Beginning of Year	10,645,618	9,718,974	7,282,428	7,354,694	17,928,046	17,073,668
<b>Net Position End of Year</b>	<b>\$11,164,012</b>	<b>\$10,645,618</b>	<b>\$7,507,562</b>	<b>\$7,282,428</b>	<b>\$18,671,574</b>	<b>\$17,928,046</b>

In 2012, total revenues were less than total revenues in the prior year. A large part of this decrease is due to the decrease in capital grants and contributions due to a sharp drop in the number of grants received.

Offsetting this decrease were increases in charges for services and sales as well as property taxes and income taxes. The increases in the property tax and income taxes were due to recovery in the economy in the area.

Both governmental and business-type expenses were lower in 2012 than in the prior year. The major contributing factor to these decreases is effective cost control by the City.

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*Management's Discussion and Analysis*  
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***Governmental Activities***

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

The City's income tax was established to be effective January 1, 1984 at a rate of 0.5 percent. This rate was later increased to 0.75 percent effective January 1, 1996 and further increased to 1 percent effective January 1, 2001. In the November, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.1 percent effective January 1, 2005. Lastly, effective on January 1, 2007 the income tax rate moved from the previous 1.1 percent to 1.5 percent. Also, on 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. On a full accrual basis, the City received income tax revenue of \$2,198,849.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities, representing 51.37 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 chief, lieutenant, secretary, and seven patrolmen comprising the full-time employees and two part-time patrolmen. The fire department is staffed by part-time firefighters. The remaining amount that is needed to operate the police department is subsidized by the general fund and income tax revenue.

***Business-Type Activities***

The City operates a Utility Department consisting of water and sewer services. The water utility includes a water treatment plant, the water distribution system, and the water utility administration. The sewer utility includes the wastewater collection system, wastewater treatment plant, and sewer utility administration.

The water utility services 2,188 customer accounts, which include customers within the City as well as customers outside of the City. The City owns and maintains the water treatment plant, which is located within the City, and the water lines of the distribution system, which are primarily located within the City, used to service the customers of the water utility.

Residential water customers within the City pay a water rate of \$2.32 per thousand gallons of usage plus a minimum fixed-rate charge of \$16.25 per month. Residential water customers outside the City pay a water rate of \$5.80 per thousand gallons of usage plus a minimum fixed-rate charge of \$16.25 per month. In December 2011, City Council approved a five-year phased-in water rate increase, which increases the minimum fixed-rate monthly charge during January of each year starting in 2012 and ending in 2016. Starting in January 2017, the per gallon water usage charge and minimum fixed-rate monthly charge will be subject to inflationary increases based upon the Consumer Price Index (CPI).

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 gallons per day. The raw water is supplied by five wells in the well field co-located with the water treatment plant, which was built in 1989.

The sewer utility services 2,052 customer accounts. The City owns and maintains the sewer lines of the collection system, which are located primarily within the City, and the wastewater treatment plant, which is located in neighboring Lawrence Township.

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Sewer customers with a water meter pay a sewer rate of \$2.82 per thousand gallons of usage plus a minimum fixed-rate charge of \$13.83 per month. Sewer customers without a water meter pay an unmetered flat sewer rate of \$22.28 per month. As of December 31, 2012, there were 54 sewer customer accounts paying the flat sewer rate. In December 2012, City Council approved a four-year phased-in sewer rate increase, which increases the minimum fixed-rate monthly charge during January of each year starting in 2013 and ending in 2016. Starting in January 2017, the per gallon sewer usage charge and minimum fixed-rate monthly charge will be subject to inflationary increases based upon the Consumer Price Index (CPI). The sewer rate increase requires the unmetered flat sewer rate to be calculated as the equivalent of 4,500 gallons of usage per month.

The City's wastewater treatment plant treats an average of 575,000 gallons of wastewater per day with a capacity to treat an additional 925,000 gallons per day. The wastewater treatment plant was built in 1983.

Through the Joint User Cost System with the Stark County Metropolitan Sewer District, the City receives wastewater from a portion of the Stark County Metropolitan Sewer District system located in northwestern Stark County and then processes this wastewater at the City's wastewater treatment plant. Through the Joint User Cost System, the Stark County Metropolitan Sewer District reimburses the City for forty-percent of capital expenditures incurred for the wastewater treatment plant and the portion of the City's wastewater collection system used by the Joint User Cost System. The Stark County Metropolitan Sewer District reimburses the City for the operating expenses incurred within the Joint User Costs System bases upon the number of City and Stark County Metropolitan Sewer District users connected to the Joint User Cost System.

As of December 31, 2012, the Joint User Cost System had 3,303 single family home equivalent connections, of which the combined total of all City sewer customers comprised 83.4 percent of the single family home equivalent connections and the remaining 16.6 percent were located in the Stark County Metropolitan Sewer District. In 2012, the City sewer utility received \$111,064 (on a cash basis) from the Stark County Metropolitan Sewer District for the operations of the Joint User Cost System.

The revenues and expenses for both of these utilities are reported under the business-type activities in Table 2. The majority of revenues are derived from charges for services. In 2012, revenues of \$1,541,884 were less than the total expenses for the utilities of \$1,376,750, resulting in income before transfers of \$165,134 for the business-type activities.

### **The City's Funds**

Information about the City's governmental funds begins on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$3,339,738 and expenditures of \$2,738,518. The City's general fund reflected an increase in fund balance of \$485,170, mainly due to higher income tax revenue and carries forward an ending fund balance of \$1,212,228. The street maintenance, police, and fire/ems funds had positive changes in fund balance with ending fund balances of \$225,432, \$212,230 and \$204,485, respectively. The street maintenance's revenues were again able to cover its expenditures, the police fund received a transfer in that allowed it to cover its expenditures, and the fire/ems fund had higher expenditures than the prior year but was still able to increase its fund balance due to a transfer in.

Information about the proprietary funds starts on page 26. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$1,541,884 and an operating income of \$201,139.

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***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 personal services and individual object level within each department as established by appropriation ordinance passed by City Council. Any budgetary modifications at this level may only be made by supplemental appropriation ordinance of City Council. City Council approves an annual budget resolution detailing the initial expenditure budget at the more detailed expense line-item level than the original appropriation ordinance. The budget resolution grants the Finance Director authority to shift the budget expenditures between individual expense line-items as long as the total appropriations of the appropriation groups are not violated and the changes are reported to City Council monthly. Inter-fund transfers and advances are approved for their total annual amount as a part of the annual appropriation ordinance and supplemental appropriation ordinances passed by City Council. Monthly posting of inter-fund transfers and advances as well as their year-to-date totals are reported to City Council monthly.

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 and final budgeted revenues were \$2,172,240 and \$2,496,188, respectively, and actual revenue collections were \$2,552,019. The increase in budgeted to actual revenue was primarily due to higher intergovernmental revenue and income tax collections.

Also in the general fund, the original budgeted expenditures and final budgeted expenditures were \$817,767 and \$822,517, respectively. The actual expenditures were \$715,987. The main difference between actual expenditures and final appropriations was mainly due to diligent oversight of expenditures for contracted services and supplies by the Administrative, Finance, Parks and Recreation, and Lands and Buildings departments, each of which spent approximately \$22,100, \$10,800, \$18,500, and \$19,400, respective, less than anticipated. The City's ending unencumbered cash balance in the general fund was \$162,361 above the final budgeted amount.

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**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$3,023,152	\$3,023,152	\$234,514	\$234,514	\$3,257,666	\$3,257,666
Construction in Progress	22,349	1,092,429	11,661	0	34,010	1,092,429
Buildings and Improvements	2,989,939	3,069,339	2,184,209	2,237,514	5,174,148	5,306,853
Equipment and Machinery	129,632	150,860	28,754	20,394	158,386	171,254
Vehicles	159,848	67,280	32,026	43,984	191,874	111,264
Infrastructure						
Roads	1,321,966	664,362	0	0	1,321,966	664,362
Storm Sewers	1,940,024	1,600,074	0	0	1,940,024	1,600,074
Water Lines	0	0	3,081,786	3,167,255	3,081,786	3,167,255
Sewer Lines	0	0	2,560,407	2,601,823	2,560,407	2,601,823
Totals	<u>\$9,586,910</u>	<u>\$9,667,496</u>	<u>\$8,133,357</u>	<u>\$8,305,484</u>	<u>\$17,720,267</u>	<u>\$17,972,980</u>

Total capital assets for the City at December 31, 2012, were valued at \$17,720,267, which reflects a decrease of \$252,713 from the 2011 ending balance of \$17,972,980. The primary cause for this decrease in capital assets is due to depreciation out-pacing outside additions, with the majority of governmental additions coming from completed construction in progress. See Note 12 in the financial statements for more information regarding the City's capital assets.

**Debt**

The outstanding debt for the City as of December 31, 2012, was \$2,829,212. This balance reflects a decrease of \$118,829 from the previous year's balance of \$2,948,041, which is a decrease of 4.03 percent.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds	\$1,093,279	\$1,153,916	\$0	\$0	\$1,093,279	\$1,153,916
Water Bonds	0	0	538,064	568,320	538,064	568,320
OPWC Loans	0	0	1,113,368	1,225,805	1,113,368	1,225,805
Capital Lease	84,501	0	0	0	84,501	0
Totals	<u>\$1,177,780</u>	<u>\$1,153,916</u>	<u>\$1,651,432</u>	<u>\$1,794,125</u>	<u>\$2,829,212</u>	<u>\$2,948,041</u>

The general obligation bonds are for fire station construction bonds. The fire station bonds will be repaid in 2025. Property tax revenue and general revenues will be used to repay these bonds.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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The water bonds category also includes a 20 year bond with interest rates of 3 – 4.5 percent. This bond will be retired in 2025 and is for the construction of a waterline to the Northwest Schools campus.

The OPWC Loans are comprised of seven 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 30 years by user fees. The loans will be retired anywhere from 2015 to 2040.

See Note 16 in the financial statements for more information regarding the City's debt.

### **Current Financial Issues**

Over the past twenty years, income tax collections (on a cash basis) have increased from \$425,403 in 1993, to \$2,215,042 in 2012. This is largely attributed to the voter approved, four tenths of a percent increase that began in 2008. The Northwest Local School District became the City's largest employer in June 2008 through an annexation. The voters also approved a one tenth of a percent income tax rate levy dedicated to the Police Department. The remaining one and four tenths of a percent income tax rate levies are receipted into the general fund, from where it is distributed to various City departments and funds via transfers in the annual appropriation ordinances adopted by City Council. Transfers from the general fund to the various City departments and funds are used to support the operating expenses and capital improvements and acquisitions of the City departments outside of the water and sewer utilities. The majority of the City debt consists of bonds and zero percent interest OPWC loans owed by the water and sewer utilities, which will be repaid from user fees charged by the respective utility.

In anticipation of a 2013 joint City-Stark County project to resurface Locust and Portage Streets and the \$2.4 million federally funded improvement of the Cherry Street and Locust Street intersection starting in 2013, the City placed a one mill, three-year streets capital improvement levy on the November 2012 ballot to help fund the local share of these projects while increasing funding for annual capital improvements to City streets such as the annual Chip and Seal program. With the failure of this attempted levy, regardless of whether the local share for these projects is paid for using proceeds of a debt issuance or future current year revenues, the local share for these projects will ultimately be paid for with general fund income tax collections. Therefore, it is vital that the City continue to monitor income tax collections to ensure income tax collections continue to grow; otherwise the City will need to potentially make difficult decisions regarding other capital improvements and acquisitions.

In early 2012, the City finished the High Street and Erie Avenue project, which began in 2010. The High Street and Erie Avenue project was a joint City-Stark County project that was awarded an OPWC grant for 74 percent of the project. Phase I added turn lanes to Erie Avenue in front of the Northwest Local School District campus, in order to improve access and safety to the schools. Additionally, Phase I resurfaced High Street, which becomes Erie Avenue outside of the City limits, starting at Plum Creek to the road widening in front of the Northwest Local School District campus. Phase II was a culvert improvement along Plum Creek, which addressed long standing drainage issues. Phase I had a final total cost of \$648,522. Phase II had a final total cost of \$379,780.

After a delay caused by the bidding process in 2011, the City completed a substantial Chip and Seal Program in 2012. The 2012 Chip and Seal Program resurfaced 9.2 miles of City streets at a cost of \$78,495.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2012*  
*Unaudited*

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In 2012, there were several grants awarded to the City. An OPWC grant was awarded to fund 74 percent of the 2013 joint City-Stark County project to resurface Locust and Portage Streets, which is estimated at a total cost of \$1,297,119. ODNR awarded a NatureWorks grant of up to \$9,790 to help fund the 2013 resurfacing of the tennis courts at Mulhauser Park. As the owner of the building housing the Northwest Stark Senior Citizens Center, the Northwest Stark Senior Citizens Commission passed unto the City a \$21,360 grant from the Stark Community Foundation to help fund the replacements of the three Senior Center Building furnaces and air conditioners and the Senior Center Building roof, which began in 2012 and continues on into 2013.

In 2012, the City began preparation for two significant improvements scheduled for 2013 at the Wastewater Treatment Plant. The WWTP Influent Bar Screen Improvement project, which has an estimated cost of \$173,928, was awarded an OPWC 20-year zero percent interest loan. A contract for the design engineering of the EPA mandated phosphorus removal system, which has an estimated cost of \$107,064, was awarded in 2012.

**Contacting the City's Finance Department**

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

**BASIC FINANCIAL  
STATEMENTS**

**City of Canal Fulton, Ohio***Statement of Net Position**December 31, 2012*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,022,010	\$1,078,548	\$3,100,558
Accounts Receivable	21,960	129,627	151,587
Internal Balances	100,000	(100,000)	0
Intergovernmental Receivable	222,879	0	222,879
Materials and Supplies Inventory	25,942	5,257	31,199
Income Taxes Receivable	566,358	0	566,358
Property Taxes Receivable	292,891	0	292,891
Nondepreciable Capital Assets	3,045,501	246,175	3,291,676
Depreciable Capital Assets, Net	6,541,409	7,887,182	14,428,591
<i>Total Assets</i>	<u>12,838,950</u>	<u>9,246,789</u>	<u>22,085,739</u>
<b>Liabilities</b>			
Accounts Payable	37,788	4,032	41,820
Accrued Wages	48,699	20,328	69,027
Intergovernmental Payable	62,446	20,897	83,343
Vacation Benefits Payable	7,442	2,928	10,370
Accrued Interest Payable	5,265	6,746	12,011
Long-Term Liabilities:			
Due Within One Year	77,576	142,438	220,014
Due In More Than One Year	1,154,662	1,541,858	2,696,520
<i>Total Liabilities</i>	<u>1,393,878</u>	<u>1,739,227</u>	<u>3,133,105</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	281,060	0	281,060
<b>Net Position</b>			
Net Investment in Capital Assets	8,417,409	6,484,989	14,902,398
Restricted for:			
Capital Projects	203,907	0	203,907
Street Repair and Maintenance	448,063	0	448,063
Police Protection	204,411	0	204,411
Other Purposes	11,386	0	11,386
Unclaimed Monies	2,825	0	2,825
Unrestricted	1,876,011	1,022,573	2,898,584
<i>Total Net Position</i>	<u>\$11,164,012</u>	<u>\$7,507,562</u>	<u>\$18,671,574</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Service and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$690,025	\$65,015	\$2,172	\$0
Security of Persons and Property	1,401,939	132,350	7,717	0
Transportation	439,701	1,461	314,221	0
Leisure Time Activities	140,071	43,426	243	75
Interest and Fiscal Charges	57,128	0	0	0
<i>Total Governmental Activities</i>	<u>2,728,864</u>	<u>242,252</u>	<u>324,353</u>	<u>75</u>
<b>Business-Type Activities:</b>				
Water	608,981	791,011	0	0
Sewer	767,769	747,401	0	0
<i>Total Business-Type Activities</i>	<u>1,376,750</u>	<u>1,538,412</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u>\$4,105,614</u>	<u>\$1,780,664</u>	<u>\$324,353</u>	<u>\$75</u>

**General Revenues**

Property Taxes Levied for:  
    General Purposes  
    Debt Service  
Income Tax Levied for:  
    General Purposes  
    Other Purposes  
Grants and Entitlements not  
    Restricted to Specific Programs  
Interest  
Other

*Total General Revenues*

Transfers

*Total General Revenues and  
Transfers*

*Change in Net Position*

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
(\$622,838)	\$0	(\$622,838)
(1,261,872)	0	(1,261,872)
(124,019)	0	(124,019)
(96,327)	0	(96,327)
(57,128)	0	(57,128)
<u>(2,162,184)</u>	<u>0</u>	<u>(2,162,184)</u>
0	182,030	182,030
<u>0</u>	<u>(20,368)</u>	<u>(20,368)</u>
0	161,662	161,662
<u>(2,162,184)</u>	<u>161,662</u>	<u>(2,000,522)</u>
232,614	0	232,614
111,663	0	111,663
2,051,620	0	2,051,620
147,229	0	147,229
133,897	0	133,897
80	0	80
<u>63,475</u>	<u>3,472</u>	<u>66,947</u>
2,740,578	3,472	2,744,050
<u>(60,000)</u>	<u>60,000</u>	<u>0</u>
<u>2,680,578</u>	<u>63,472</u>	<u>2,744,050</u>
518,394	225,134	743,528
<u>10,645,618</u>	<u>7,282,428</u>	<u>17,928,046</u>
<u>\$11,164,012</u>	<u>\$7,507,562</u>	<u>\$18,671,574</u>

**City of Canal Fulton, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2012*

	General	Street Maintenance	Police	Fire/ EMS	Other Governmental Funds
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$922,470	\$192,307	\$262,259	\$218,429	\$423,720
Accounts Receivable	3,889	0	0	18,071	0
Interfund Receivable	100,000	0	0	0	0
Intergovernmental Receivable	57,112	111,196	0	0	54,571
Income Taxes Receivable	528,412	0	37,946	0	0
Property Taxes Receivable	191,914	0	0	0	100,977
Materials and Supplies Inventory	0	25,942	0	0	0
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	2,825	0	0	0	0
<b>Total Assets</b>	<b>\$1,806,622</b>	<b>\$329,445</b>	<b>\$300,205</b>	<b>\$236,500</b>	<b>\$579,268</b>
<b>Liabilities</b>					
Accounts Payable	\$3,633	\$674	\$1,924	\$3,143	\$28,414
Accrued Wages	9,190	5,483	23,075	10,951	0
Intergovernmental Payable	9,732	4,609	39,442	8,300	363
<b>Total Liabilities</b>	<b>22,555</b>	<b>10,766</b>	<b>64,441</b>	<b>22,394</b>	<b>28,777</b>
<b>Deferred Inflows of Resources</b>					
Property Taxes	183,926	0	0	0	97,134
Unavailable Revenue	387,913	93,247	23,534	9,621	51,955
<b>Total Deferred Inflows of Resources</b>	<b>571,839</b>	<b>93,247</b>	<b>23,534</b>	<b>9,621</b>	<b>149,089</b>
<b>Fund Balances</b>					
Nonspendable	2,825	25,942	0	0	0
Restricted	0	199,490	212,230	0	335,306
Committed	0	0	0	204,485	45,055
Assigned	2,509	0	0	0	21,041
Unassigned	1,206,894	0	0	0	0
<b>Total Fund Balances</b>	<b>1,212,228</b>	<b>225,432</b>	<b>212,230</b>	<b>204,485</b>	<b>401,402</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$1,806,622</b>	<b>\$329,445</b>	<b>\$300,205</b>	<b>\$236,500</b>	<b>\$579,268</b>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 December 31, 2012*

	<b>Total Governmental Fund Balances</b>	\$2,255,777
Total Governmental Funds	<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,586,910
\$2,019,185	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
21,960	Property Taxes	11,831
100,000	Income Taxes	351,256
222,879	Grants	193,562
566,358	Charges for Services	9,621
292,891	Total	566,270
25,942		
2,825	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(7,442)
\$3,252,040		
\$37,788	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(5,265)
48,699		
62,446	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
148,933	General Obligation Bonds	(1,093,279)
	Lease Payable	(84,501)
281,060	Compensated Absences	(54,458)
566,270	Total	(1,232,238)
847,330	<i>Net Position of Governmental Activities</i>	\$11,164,012
28,767		
747,026		
249,540		
23,550		
1,206,894		
2,255,777		
\$3,252,040		

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2012*

	General	Street Maintenance	Police	Fire/ EMS	Other Governmental Funds
<b>Revenues</b>					
Property Taxes	\$230,355	\$0	\$0	\$0	\$110,570
Income Taxes	2,061,372	0	147,992	0	0
Charges for Services	6,932	0	0	127,294	36,136
Fines, Licenses and Permits	66,834	0	1,632	0	2,406
Intergovernmental	142,212	229,799	450	4,454	103,047
Interest	72	5	0	0	3
Contributions and Donations	2,464	0	2,159	0	75
Other	27,209	8,928	5,745	0	21,593
<i>Total Revenues</i>	<u>2,537,450</u>	<u>238,732</u>	<u>157,978</u>	<u>131,748</u>	<u>273,830</u>
<b>Expenditures</b>					
Current:					
General Government	619,642	0	0	0	0
Security of Persons and Property	0	0	877,491	420,064	6,330
Transportation	13,805	203,711	0	0	74,849
Leisure Time Activities	68,833	0	0	0	46,462
Capital Outlay	0	0	0	0	281,740
Debt Service:					
Principal Retirement	0	0	0	0	68,546
Interest and Fiscal Charges	0	0	0	0	57,045
<i>Total Expenditures</i>	<u>702,280</u>	<u>203,711</u>	<u>877,491</u>	<u>420,064</u>	<u>534,972</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,835,170</u>	<u>35,021</u>	<u>(719,513)</u>	<u>(288,316)</u>	<u>(261,142)</u>
<b>Other Financing Sources (Uses)</b>					
Inception of Capital Lease	0	0	0	0	93,047
Transfers In	0	0	900,000	300,000	90,000
Transfers Out	(1,350,000)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,350,000)</u>	<u>0</u>	<u>900,000</u>	<u>300,000</u>	<u>183,047</u>
<i>Net Change in Fund Balances</i>	485,170	35,021	180,487	11,684	(78,095)
<i>Fund Balances Beginning of Year</i>	<u>727,058</u>	<u>190,411</u>	<u>31,743</u>	<u>192,801</u>	<u>479,497</u>
<i>Fund Balances End of Year</i>	<u>\$1,212,228</u>	<u>\$225,432</u>	<u>\$212,230</u>	<u>\$204,485</u>	<u>\$401,402</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2012*

<hr/> <hr/>	<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$634,267</b>
Total Governmental Funds	<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$340,925	Governmental funds report capital outlay as an expenditure.	
2,209,364	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.	
170,362	Capital Asset Additions	215,149
70,872	Current Year Depreciation	<u>(295,735)</u>
479,962		
80	Total	(80,586)
4,698	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
63,475	Property Taxes	3,352
<hr/>	Income Taxes	(10,515)
3,339,738	Grants	(26,335)
	Charges for Services	<u>1,018</u>
	Total	(32,480)
	Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	68,546
	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.	
619,642	Accrued Interest	(720)
1,303,885	Amortization of Premium on Bonds	<u>637</u>
292,365	Total	(83)
115,295	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.	
281,740	Compensated Absences	21,840
<hr/>	Vacation Benefits Payable	<u>(63)</u>
68,546	Total	21,777
57,045	Other financing sources, such as inception of capital leases, in the governmental funds that increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities	(93,047)
<hr/>	<i>Change in Net Position of Governmental Activities</i>	<u><u>\$518,394</u></u>
2,738,518		
<hr/>		
601,220		
<hr/>		
93,047		
1,290,000		
(1,350,000)		
<hr/>		
33,047		
<hr/>		
634,267		
<hr/>		
1,621,510		
<hr/>		
\$2,255,777		

**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, 2012*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$211,500	\$230,249	\$230,355	\$106
Income Taxes	1,819,935	2,053,334	2,066,634	13,300
Charges for Services	3,900	5,800	6,932	1,132
Fines, Licenses and Permits	29,000	66,000	66,774	774
Intergovernmental	91,487	114,387	152,285	37,898
Interest	0	0	72	72
Contributions and Donations	500	500	2,539	2,039
Other	15,918	25,918	26,428	510
<i>Total Revenues</i>	<u>2,172,240</u>	<u>2,496,188</u>	<u>2,552,019</u>	<u>55,831</u>
<b>Expenditures</b>				
Current:				
General Government	701,092	719,593	633,006	86,587
Transportation	15,275	15,275	13,805	1,470
Leisure Time Activities	101,400	87,649	69,176	18,473
<i>Total Expenditures</i>	<u>817,767</u>	<u>822,517</u>	<u>715,987</u>	<u>106,530</u>
<i>Excess of Revenues Over Expenditures</i>	<u>1,354,473</u>	<u>1,673,671</u>	<u>1,836,032</u>	<u>162,361</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	50,000	50,000	50,000	0
Transfers Out	(1,285,000)	(1,350,000)	(1,350,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,235,000)</u>	<u>(1,300,000)</u>	<u>(1,300,000)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	119,473	373,671	536,032	162,361
<i>Fund Balance Beginning of Year</i>	377,305	377,305	377,305	0
Prior Year Encumbrances Appropriated	9,449	9,449	9,449	0
<i>Fund Balance End of Year</i>	<u>\$506,227</u>	<u>\$760,425</u>	<u>\$922,786</u>	<u>\$162,361</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Street Maintenance Fund  
For the Year Ended December 31, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Intergovernmental	\$225,145	\$225,145	\$230,130	\$4,985
Interest	0	0	5	5
Other	2,501	10,601	8,928	(1,673)
<i>Total Revenues</i>	227,646	235,746	239,063	3,317
<b>Expenditures</b>				
Current:				
Transportation	293,156	275,656	210,688	64,968
<i>Net Change in Fund Balance</i>	(65,510)	(39,910)	28,375	68,285
<i>Fund Balance Beginning of Year</i>	154,801	154,801	154,801	0
Prior Year Encumbrances Appropriated	5,306	5,306	5,306	0
<i>Fund Balance End of Year</i>	<u>\$94,597</u>	<u>\$120,197</u>	<u>\$188,482</u>	<u>\$68,285</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Police Fund*  
*For the Year Ended December 31, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Income Taxes	\$130,065	\$146,666	\$148,408	\$1,742
Fines, Licenses and Permits	700	700	454	(246)
Contributions and Donations	0	0	30	30
Other	100	3,900	6,195	2,295
<i>Total Revenues</i>	130,865	151,266	155,087	3,821
<b>Expenditures</b>				
Current:				
Security of Persons and Property	1,042,582	947,332	886,450	60,882
<i>Excess of Revenues Under Expenditures</i>	(911,717)	(796,066)	(731,363)	64,703
<b>Other Financing Sources</b>				
Transfers In	900,000	900,000	900,000	0
<i>Net Change in Fund Balance</i>	(11,717)	103,934	168,637	64,703
<i>Fund Balance Beginning of Year</i>	90,776	90,776	90,776	0
Prior Year Encumbrances Appropriated	557	557	557	0
<i>Fund Balance End of Year</i>	<u>\$79,616</u>	<u>\$195,267</u>	<u>\$259,970</u>	<u>\$64,703</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Fire/EMS Fund*  
*For the Year Ended December 31, 2012*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Charges for Services	\$110,000	\$110,000	\$125,165	\$15,165
Intergovernmental	3,000	3,000	4,454	1,454
<i>Total Revenues</i>	113,000	113,000	129,619	16,619
<b>Expenditures</b>				
Current:				
Security of Persons and Property	492,700	501,050	422,599	78,451
<i>Excess of Revenues Under Expenditures</i>	(379,700)	(388,050)	(292,980)	95,070
<b>Other Financing Sources</b>				
Transfers In	300,000	300,000	300,000	0
<i>Net Change in Fund Balance</i>	(79,700)	(88,050)	7,020	95,070
<i>Fund Balance Beginning of Year</i>	196,445	196,445	196,445	0
Prior Year Encumbrances Appropriated	7,675	7,675	7,675	0
<i>Fund Balance End of Year</i>	<u>\$124,420</u>	<u>\$116,070</u>	<u>\$211,140</u>	<u>\$95,070</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*December 31, 2012*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$429,602	\$648,946	\$1,078,548
Materials and Supplies Inventory	863	4,394	5,257
Accounts Receivable	70,826	58,801	129,627
<i>Total Current Assets</i>	<u>501,291</u>	<u>712,141</u>	<u>1,213,432</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	67,800	178,375	246,175
Depreciable Capital Assets, Net	3,924,945	3,962,237	7,887,182
<i>Total Noncurrent Assets</i>	<u>3,992,745</u>	<u>4,140,612</u>	<u>8,133,357</u>
<i>Total Assets</i>	<u>4,494,036</u>	<u>4,852,753</u>	<u>9,346,789</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	2,441	1,591	4,032
Accrued Wages	10,164	10,164	20,328
Intergovernmental Payable	10,590	10,307	20,897
Interfund Payable	100,000	0	100,000
Vacation Benefits Payable	1,464	1,464	2,928
Accrued Interest Payable	6,746	0	6,746
General Obligation Bonds Payable	30,000	0	30,000
OPWC Loans Payable	68,893	43,545	112,438
<i>Total Current Liabilities</i>	<u>230,298</u>	<u>67,071</u>	<u>297,369</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	16,432	16,432	32,864
General Obligation Bonds Payable	508,064	0	508,064
OPWC Loans Payable	547,720	453,210	1,000,930
<i>Total Long-Term Liabilities</i>	<u>1,072,216</u>	<u>469,642</u>	<u>1,541,858</u>
<i>Total Liabilities</i>	<u>1,302,514</u>	<u>536,713</u>	<u>1,839,227</u>
<b>Net Position</b>			
Net Investment in Capital Assets	2,841,132	3,643,857	6,484,989
Unrestricted	350,390	672,183	1,022,573
<i>Total Net Position</i>	<u>\$3,191,522</u>	<u>\$4,316,040</u>	<u>\$7,507,562</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Year Ended December 31, 2012*

	Water	Sewer	Total
<b>Operating Revenues</b>			
Charges for Services	\$791,011	\$747,401	\$1,538,412
Other	1,801	1,671	3,472
<i>Total Operating Revenues</i>	<u>792,812</u>	<u>749,072</u>	<u>1,541,884</u>
<b>Operating Expenses</b>			
Personal Services	264,161	265,148	529,309
Fringe Benefits	57,382	75,334	132,716
Contractual Services	93,595	221,330	314,925
Materials and Supplies	32,348	39,481	71,829
Depreciation	123,552	151,217	274,769
Other	1,938	15,259	17,197
<i>Total Operating Expenses</i>	<u>572,976</u>	<u>767,769</u>	<u>1,340,745</u>
<i>Operating Income (Loss)</i>	219,836	(18,697)	201,139
<b>Non-Operating Expenses</b>			
Interest and Fiscal Charges	(36,005)	0	(36,005)
<i>Income (Loss) before Transfers</i>	183,831	(18,697)	165,134
Transfers In	60,000	0	60,000
<i>Change in Net Position</i>	243,831	(18,697)	225,134
<i>Net Position Beginning of Year</i>	<u>2,947,691</u>	<u>4,334,737</u>	<u>7,282,428</u>
<i>Net Position End of Year</i>	<u><u>\$3,191,522</u></u>	<u><u>\$4,316,040</u></u>	<u><u>\$7,507,562</u></u>

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, 2012

	Water	Sewer	Total
<b>Increase in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$786,501	\$750,807	\$1,537,308
Other Cash Receipts	1,801	1,671	3,472
Cash Payments to Employees for Services	(345,075)	(351,722)	(696,797)
Cash Payments for Goods and Services	(128,122)	(265,898)	(394,020)
Other Cash Payments	(1,938)	(15,259)	(17,197)
<i>Net Cash Provided by Operating Activities</i>	<u>313,167</u>	<u>119,599</u>	<u>432,766</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal Paid on Bonds	(30,000)	0	(30,000)
Interest Paid on Bonds	(23,613)	0	(23,613)
Principal Paid on OPWC Loans	(68,893)	(43,544)	(112,437)
Payments for Capital Acquisitions	(12,853)	(89,789)	(102,642)
Federal and State Subsidies	0	32,654	32,654
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(135,359)</u>	<u>(100,679)</u>	<u>(236,038)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advances Out	(50,000)	0	(50,000)
Transfer In	60,000	0	60,000
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>10,000</u>	<u>0</u>	<u>10,000</u>
<i>Net Increase in Cash and Cash Equivalents</i>	187,808	18,920	206,728
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>241,794</u>	<u>630,026</u>	<u>871,820</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$429,602</u>	<u>\$648,946</u>	<u>\$1,078,548</u>

(continued)

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2012

	Water	Sewer	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$219,836	(\$18,697)	\$201,139
Adjustments:			
Depreciation	123,552	151,217	274,769
(Increase) Decrease in Assets:			
Accounts Receivable	(4,510)	(4,371)	(8,881)
Materials and Supplies Inventory	(840)	3,406	2,566
Increase (Decrease) in Liabilities:			
Accounts Payable	1,261	(716)	545
Vacation Benefits Payable	(503)	(44)	(547)
Accrued Wages	(555)	1,826	1,271
Compensated Absences Payable	(21,046)	(13,339)	(34,385)
Intergovernmental Payable	(4,028)	317	(3,711)
<i>Net Cash Provided by Operating Activities</i>	<u>\$313,167</u>	<u>\$119,599</u>	<u>\$432,766</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2012*

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

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**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 staggered 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 participates in the Stark County Regional Planning Commission, the Stark Council of Governments, and the Stark County District Board of Health as jointly governed organizations, the Local Organized Governments in Cooperation, which is defined as a joint venture, and the Northwest Stark Senior Citizens Commission and the Stark County Schools' Council of Governments, which are defined as related organizations. These organizations are presented in Notes 13, 14, and 15 to the basic financial statements.

The City's management believes these financial statements present all activities for which the City is financially accountable.

**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 more significant of the City's accounting policies are described below.

***Basis of Presentation***

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and 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. Fiduciary funds are reported by type.

***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 deferred outflows of resources, and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

***General Fund*** The general fund accounts for and reports 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 Fund*** The street maintenance fund accounts for and reports State gasoline tax and motor vehicle registration fees restricted for the expenditures related to maintaining the roads within the City.

***Police Fund*** The police fund accounts for and reports income taxes levied and restricted for expenditures related to police protection in the City.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Fire/EMS Fund*** The fire/EMS fund accounts for and reports charges for services committed to expenditures related to fire protection and emergency medical services in the City.

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

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The City has no internal service funds.

***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.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are 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 has one agency fund. The agency fund is used for performance bonds and security deposits.

***Measurement Focus***

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

***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Fund Net Position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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, in the recording of deferred outflows/inflows of resources 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, interest, grants and rentals.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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.

***Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as “equity in pooled cash and cash equivalents”. The City had no investments during the year or at year end.

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 2012 amounted to \$72, which includes \$35 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.

***Inventory***

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

***Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

***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 position 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 position 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 capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Equipment and Machinery	5-10 years
Vehicles	5-15 years
Infrastructure	20-75 years

The City's current infrastructure consists of roads, storm sewers and water and sewer lines. For 2003, the City reported governmental activities infrastructure for the first time.

***Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund balance amounts are eliminated in the statement of net position.

***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. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net position rather than as a long-term liability.

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 after seven years of service). 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. The City records a liability for accumulated unused sick leave for all employees after ten years of accumulated service.

***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 and compensated absences 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.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Fund Balance***

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

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

***Restricted*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by ordinance, City charter, or by State Statute. State Statute authorizes the Finance Director to assign fund balance for purchases on order provided amounts have been lawfully appropriated.

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Net Position***

Net position represents the difference between all other elements in the statement of net position. Net investment in capital assets 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 position is 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 position restricted for other purposes include resources restricted for the St. Helena canal boat.

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

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. 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.

***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in 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.

***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized for the term of the bonds using the straight-line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On governmental fund statements, bond premiums are received in the year the bonds are issued.

***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from grants restricted to capital acquisition and construction.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***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.

***Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative 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 personal services and individual object level within each department for all funds. Any budgetary modifications at this level may only be made by resolution of City Council.

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

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first 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 – Change in Accounting Principles**

***Changes in Accounting Principles***

For 2012, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements," Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements," Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53," Statement No. 65, "Items Previously Reported as Assets and Liabilities," and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62."

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change in the City's financial statements.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change in the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The implementation of this statement did not result in any change in the City's financial statements.

#### **Note 4 – Compliance**

Contrary to Ohio Revised Code Section 5705.39, the general capital projects fund had original appropriations in excess of certified available resources by \$95,295.

This budgetary violation was corrected by year end and management has indicated that appropriations will be closely monitored to ensure no further violations.

#### **Note 5 – 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 and other sources 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 restricted, committed, or assigned fund balance (GAAP).

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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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

	Street			
	General	Maintenance	Police	Fire/EMS
GAAP Basis	\$485,170	\$35,021	\$180,487	\$11,684
Net Adjustment for Revenue Accruals	64,569	331	(2,891)	(2,129)
Net Adjustment for Expenditure Accruals	(11,198)	(3,152)	(6,670)	4,754
Encumbrances	(2,509)	(3,825)	(2,289)	(7,289)
Budget Basis	<u>\$536,032</u>	<u>\$28,375</u>	<u>\$168,637</u>	<u>\$7,020</u>

**Note 6 – Deposits and Investments**

The City has chosen to follow State Statutes which 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.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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;

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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4. Bonds and other obligation of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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,
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

***Custodial Credit Risk*** Custodial Credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the carrying amount of the City's deposits was \$3,111,099. Of the bank balance of \$3,192,786, \$2,862,729 was covered by Federal depository insurance and \$330,057 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments 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.

## **Note 7 – Receivables**

Receivables at December 31, 2012, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues and accounts (billings for utility service). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Property Taxes***

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2012 for real and public utility property taxes represents collections of 2011 taxes.

2012 real property taxes were levied after October 1, 2012, on the assessed value as of January 1, 2012, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2012 real property taxes are collected in and intended to finance 2013.

Real property taxes are payable annually or semi-annually. If paid annually, 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.

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. 2012 public utility property taxes which became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2012, was \$3.70 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2012 property tax receipts were based are as follows:

	Assessed Value
Real Property	\$94,568,860
Public Utility Property	1,193,020
Total	<u>\$95,761,880</u>

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 represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the general and capital improvement funds, the entire receivable has been offset by deferred inflows of resources — property taxes since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes during the available period are not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue has been reported as deferred inflows of resources — unavailable revenue.

***Income Taxes***

The City levies a municipal income tax of 1.5 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 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 and the police special revenue fund.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	Amount
<b><i>Governmental Activities:</i></b>	
Gasoline Tax	\$111,196
Homestead and Rollback	39,368
Permissive Motor Vehicle License Tax	33,069
Local Government	30,230
Motor Vehicle License Tax	9,016
	\$222,879

**Note 8 – Interfund Transactions**

***Interfund Balances***

Interfund balances at December 31, 2012, consist of an interfund receivable in the general fund of \$100,000 and an interfund payable in the water fund of \$100,000. The advance was made to cover water fund operating expenses.

***Interfund Transfers***

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer to	Transfer From General
<b><i>Major Funds:</i></b>	
Police	\$900,000
Fire/EMS	300,000
Water	60,000
<i>Total Major Funds</i>	1,260,000
Other Governmental Funds	90,000
Total	\$1,350,000

The transfers to the police and fire/EMS special revenue funds, the water enterprise fund, and the other governmental funds were to supplement the operations of those funds. The transfers to other governmental funds were to supplement capital improvements.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**Note 9 – 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 2012, the City contracted with The Ohio Municipal Joint Self Insurance Pool for various types of insurance. The coverage and deductible are as follows:

Type of Coverage	Deductible	Coverage
General Liability	\$1,000	\$2,000,000
Employers Liability	0	1,000,000
Employee Benefits	1,000	1,000,000
Law Enforcement Officers Liability	5,000	2,000,000
Public Officials Liability	1,000	2,000,000
Automobile	500	2,000,000
Property	1,000	12,223,453
Electronic Equipment/Media Coverage	500	44,066
Public Employee Dishonesty	250	10,000
Boiler and Machinery	1,000	12,223,453
Emergency Medical Services Liability	1,000	2,000,000
Municipal Attorney and Law Director	1,000	1,000,000

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.

**Note 10 – Other Employee Benefits**

*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. Only five vacation days may be carried over to the following year. 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, a non-union employee can be paid twenty-five percent of accumulated, unused sick leave to a maximum of 120 days and a union employee can be paid twenty-five percent of accumulated sick leave.

*Medical and Dental Insurance*

The City provides medical, dental, and vision benefits to employees through HomeTown Health, MetLife, and Vision Service Plan, respectively. The City also provides \$25,000 of life insurance for employees through Lincoln Financial. The City's portion of monthly premiums for 2012 were \$995.58 for family, \$708.53 for employee and spouse, \$618.26 for employee and children, and \$334.03 for single.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

**Note 11 – Contingencies**

***Litigation***

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

***Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

**Note 12 – Capital Assets**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b><i>Governmental Activities:</i></b>				
Capital Assets not being depreciated:				
Land	\$3,023,152	\$0	\$0	\$3,023,152
Construction in Progress	1,092,429	51,268	(1,121,348)	22,349
Total Capital Assets not being depreciated	<u>4,115,581</u>	<u>51,268</u>	<u>(1,121,348)</u>	<u>3,045,501</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,999,052	21,115	0	5,020,167
Equipment and Machinery	452,237	22,872	(19,577)	455,532
Vehicles	1,197,063	118,845	(91,166)	1,224,742
Infrastructure:				
Storm Sewers	3,571,443	379,780	0	3,951,223
Roads	957,636	742,617	0	1,700,253
Total Capital Assets being depreciated	<u>11,177,431</u>	<u>1,285,229</u>	<u>(110,743)</u>	<u>12,351,917</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,929,713)	(100,515)	0	(2,030,228)
Equipment and Machinery	(301,377)	(44,100)	19,577	(325,900)
Vehicles	(1,129,783)	(26,277)	91,166	(1,064,894)
Infrastructure:				
Storm Sewers	(1,971,369)	(39,830)	0	(2,011,199)
Roads	(293,274)	(85,013)	0	(378,287)
Total Accumulated Depreciation	<u>(5,625,516)</u>	<u>(295,735)*</u>	<u>110,743</u>	<u>(5,810,508)</u>
Total Capital Assets being Depreciated, net	<u>5,551,915</u>	<u>989,494</u>	<u>0</u>	<u>6,541,409</u>
Governmental Activities Capital Assets, Net	<u>\$9,667,496</u>	<u>\$1,040,762</u>	<u>(\$1,121,348)</u>	<u>\$9,586,910</u>

**City of Canal Fulton, Ohio**  
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For the Year Ended December 31, 2012

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

General Government	\$64,522
Security of Persons and Property	99,350
Transportation	107,087
Leisure Time Activities	<u>24,776</u>
<b>Total Depreciation Expense</b>	<b><u><u>\$295,735</u></u></b>

	Balance 12/31/2011	Additions	Deductions	Balance 12/31/2012
<b><i>Business-Type Activities:</i></b>				
Capital Assets not being depreciated:				
Land	\$234,514	\$0	\$0	\$234,514
Construction in Progress	0	11,661	0	11,661
<b>Total Capital Assets not being depreciated</b>	<u>234,514</u>	<u>11,661</u>	<u>0</u>	<u>246,175</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,306,231	52,677	0	4,358,908
Equipment and Machinery	88,197	16,691	0	104,888
Vehicles	192,010	0	0	192,010
Infrastructure:				
Sewer Lines	5,015,674	21,613	0	5,037,287
Water Lines	6,134,211	0	0	6,134,211
<b>Total Capital Assets being depreciated</b>	<u>15,736,323</u>	<u>90,981</u>	<u>0</u>	<u>15,827,304</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,068,717)	(105,982)	0	(2,174,699)
Equipment and Machinery	(67,803)	(8,331)	0	(76,134)
Vehicles	(148,026)	(11,958)	0	(159,984)
Infrastructure:				
Sewer Lines	(2,413,851)	(63,029)	0	(2,476,880)
Water Lines	(2,966,956)	(85,469)	0	(3,052,425)
<b>Total Accumulated Depreciation</b>	<u>(7,665,353)</u>	<u>(274,769)</u>	<u>0</u>	<u>(7,940,122)</u>
<b>Total Capital Assets, being depreciated, net</b>	<u>8,070,970</u>	<u>(183,788)</u>	<u>0</u>	<u>7,887,182</u>
<b>Business-Type Activities Capital Assets, Net</b>	<u><u>\$8,305,484</u></u>	<u><u>(\$172,127)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,133,357</u></u>

**Note 13 – Jointly Governed Organizations**

***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 85 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 2012, the City contributed \$548 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

***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 2012. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

***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 8 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City contributed \$26,034 to the Health District in 2012. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

**Note 14 – Joint Venture**

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, Lawrence Township, City of Massillon, and Hills and Dales Village, with each participant providing one representative to serve on the board. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding,

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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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 2012, the City made contributions of \$51,612, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, 2601 Cleveland Avenue, Canton, Ohio 44709.

**Note 15 – Related Organizations**

*Northwest Stark Senior Citizens Commission*

Four of the nine members of the Commission are appointed by the Mayor of the City. Four of the nine members of the Commission are elected by the members of the Northwest Stark Senior Center. These eight members of the Commission elect the remaining member. The Commission administers its own staff and does not rely on the City to finance deficits. The City is not financially accountable for the Commission nor is the Commission financially dependent on the City. The Commission received a donation of \$2,000 from the City in 2012.

*Stark County Schools' Council of Governments*

The Stark County Schools' Council of Governments (SCSCOG) is a consortium of school districts and related agencies serving the greater Stark County area. The SCSCOG serves 85 member schools, libraries, colleges, and related agencies. The SCSCOG exists primarily for the promotion of cooperative agreements and contracts among its members and private persons, corporations and agencies. The SCSCOG's main ventures are in the areas of insurance, worker's compensation, and cooperative purchasing. The City participates in the SCSCOG's cooperative purchasing of office supplies and fuel.

**Note 16 – Long-Term Obligations**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Governmental Activities:</i>			
Fire Station Bonds 1 - 2006	4.25-5	\$750,000	December 1, 2025
Fire Station Bonds 2 - 2006	4.25-5	750,000	December 1, 2025
<i>Business-Type Activities:</i>			
OPWC Canal Street Waterline Loan - 1995	0	123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2003	0	600,595	July 1, 2024
OPWC Milan Street Waterline Loan - 2006	0	331,649	January 1, 2026
OPWC Denshire Sanitary Sewer Loan - 2003	0	417,195	July 1, 2022
OPWC Solids Handling Improvement Loan - 2003	0	376,100	January 1, 2023
OPWC High Street Sanitary Sewer Loan - 2009	0	116,357	January 1, 2040
Northwest Waterline Bonds - 2005	3.0-4.5	730,000	March 15, 2025

**City of Canal Fulton, Ohio**  
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The changes in the City's long-term obligations during the year consist of the following:

	Amount Outstanding 12/31/2011	Additions	Deletions	Amount Outstanding 12/31/2012	Amounts Due in One Year
<b><i>Governmental Activities:</i></b>					
<b><u>General Obligation Bonds</u></b>					
Fire Station Bonds 1	\$575,000	\$0	\$30,000	\$545,000	\$30,000
Premium on Fire Station Bonds 1	6,302	0	450	5,852	0
Fire Station Bonds 2	570,000	0	30,000	540,000	30,000
Premium on Fire Station Bonds 2	2,614	0	187	2,427	0
Total General Obligation Bonds	<u>1,153,916</u>	<u>0</u>	<u>60,637</u>	<u>1,093,279</u>	<u>60,000</u>
Capital Lease	0	93,047	8,546	84,501	17,576
Compensated Absences	76,298	0	21,840	54,458	0
Total Governmental Activities	<u>\$1,230,214</u>	<u>\$93,047</u>	<u>\$91,023</u>	<u>\$1,232,238</u>	<u>\$77,576</u>

***Business-Type Activities:***

**OPWC Loans**

Water - Canal Street	\$21,550	\$0	\$6,158	\$15,392	\$6,158
Water - Market Street	56,429	0	16,123	40,306	16,123
Water - Treatment Plant	375,370	0	30,030	345,340	30,030
Water - Milan Street	232,157	0	16,582	215,575	16,582
Sewer - Denshire Sanitary	219,025	0	20,860	198,165	20,861
Sewer - Solids Handling Improvement	206,856	0	18,805	188,051	18,805
Sewer - High Street Sanitary	114,418	0	3,879	110,539	3,879
Total OPWC Loans	<u>1,225,805</u>	<u>0</u>	<u>112,437</u>	<u>1,113,368</u>	<u>112,438</u>

**General Obligation Bonds**

**Northwest Waterline Bonds**

Serial Bonds	320,000	0	30,000	290,000	30,000
Term Bonds	245,000	0	0	245,000	0
Premium on Northwest Waterline Bonds	3,320	0	256	3,064	0
Total General Obligation Bonds	<u>568,320</u>	<u>0</u>	<u>30,256</u>	<u>538,064</u>	<u>30,000</u>
Compensated Absences	67,249	0	34,385	32,864	0

The fire station bonds 1 and 2 and the capital lease are paid from the general obligation debt service fund.

The City has pledged future water revenues net of expenditures to repay OPWC loans. These loans are payable solely from net revenues and are payable through 2026. Annual principal payments on these loans are expected to require less than 21 percent of net revenues and less than 9 percent of total revenues. The total principal remaining to be paid on the loans is \$616,613. Principal paid for the current year was \$68,893, total net revenues were \$343,388, and total revenues were \$792,812.

The City has pledged future sewer revenues net of expenditures to repay OPWC loans. These loans are payable solely from net revenues and are payable through 2041. Annual principal payments on these loans are expected to require less than 33 percent of net revenues and less than 6 percent of total revenues. The total principal remaining to be paid on the loans is \$496,755. Principal paid for the current year was \$43,544, total net revenues were \$132,520, and total revenues were \$749,072.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

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On March 15, 2005, the City issued \$730,000 of Water Improvement Bonds for the purpose of constructing a waterline for the Northwest Local School District. The bonds are subject to mandatory sinking fund redemption before maturity. Interest payments, at rates ranging from 3 percent to 4.5 percent per year are payable on March 15 and September 15 of each year, until the principal amount is paid.

**Redemption Provisions**

***Mandatory Sinking Fund Redemption*** The Northwest waterline bonds maturing on March 15, 2025 are term bonds and are subject to mandatory sinking redemption requirements on March 15 in the years (Mandatory Redemption Dates) and in the principal amounts as follows (with the balance of \$55,000 to be paid at maturity on March 15, 2025):

Year	Principal Amount
2021	\$45,000
2022	45,000
2023	50,000
2024	50,000

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

As of December 31, 2012, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,456,038 and the unvoted legal debt margin was \$3,667,944.

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2012, are as follows:

Year	Governmental Activities	
	General Obligation	
	Bonds	
	Principal	Interest
2013	\$60,000	\$52,750
2014	70,000	50,200
2015	70,000	47,050
2016	70,000	43,900
2017	70,000	40,750
2018-2022	435,000	144,750
2023-2025	310,000	31,500
Total	\$1,085,000	\$410,900

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

Year	Business-Type Activities					
	OPWC Loans	General Obligation Bonds				
		Principal	Serial		Term	
			Principal	Interest	Principal	Interest
2013	\$112,438	\$30,000	\$22,412	\$0	\$0	
2014	112,437	35,000	21,112	0	0	
2015	101,292	35,000	19,712	0	0	
2016	90,156	35,000	18,312	0	0	
2017	90,156	35,000	16,869	0	0	
2018-2022	440,346	120,000	40,728	90,000	18,001	
2023-2027	114,190	0	0	155,000	10,685	
2028-2032	19,395	0	0	0	0	
2033-2037	19,395	0	0	0	0	
2038-2040	13,563	0	0	0	0	
<b>Total</b>	<b>\$1,113,368</b>	<b>\$290,000</b>	<b>\$139,145</b>	<b>\$245,000</b>	<b>\$28,686</b>	

**Note 17 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent 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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for State and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2012, members in State and local divisions contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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The City's 2012 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$99,482, \$98,647, and \$89,505, respectively. For 2012, 84.91 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the Member-Directed plan for 2012 were \$6,860 made by the City and \$4,900 made by the plan members.

***Ohio Police and Fire Pension Fund***

Plan Description – 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police was \$53,624 for the year ended December 31, 2012, \$66,594 for the year ended December 31, 2011, and \$58,727 for the year ended December 31, 2010. For 2012, 65.82 percent for police has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2012.

**Note 18 – Postemployment Benefits**

***Ohio Public Employees Retirement System***

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, State and local employers contributed at a rate of 14 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1 percent for both plans, as recommended by the OPERS Actuary.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$39,793, \$39,459, and \$51,026, respectively. For 2012, 84.91 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

***Ohio Police and Fire Pension Fund***

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

**Funding Policy** – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police was \$28,389 for the year ended December 31, 2012, \$35,255 for the year ended December 31, 2011, and \$31,091 for the year ended December 31, 2010. For 2012, 65.82 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2012

**Note 19 – Significant Commitments**

***Encumbrances***

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General	\$2,509
Street Maintenance	3,825
Police	2,289
Fire/EMS	7,289
Nonmajor	94,996
<b>Total</b>	<b><u><u>\$110,908</u></u></b>

**Note 20 – Fund Balances**

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

Fund Balances	General	Street Maintenance	Police	Fire/ EMS	Other Governmental Funds	Total
<u><b>Nonspendable:</b></u>						
Unclaimed Monies	\$2,825	\$0	\$0	\$0	\$0	\$2,825
Inventory	0	25,942	0	0	0	25,942
<i>Total Nonspendable</i>	<u>2,825</u>	<u>25,942</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,767</u>
<u><b>Restricted to:</b></u>						
Transportation	0	199,490	0	0	95,389	294,879
Public Safety	0	0	212,230	0	24,624	236,854
St. Helena II	0	0	0	0	11,386	11,386
Capital Improvements	0	0	0	0	203,907	203,907
<i>Total Restricted</i>	<u>0</u>	<u>199,490</u>	<u>212,230</u>	<u>0</u>	<u>335,306</u>	<u>747,026</u>
<u><b>Committed to:</b></u>						
Public Safety	0	0	0	204,485	0	204,485
Parks and Recreation	0	0	0	0	45,055	45,055
<i>Total Committed</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>204,485</u>	<u>45,055</u>	<u>249,540</u>
<u><b>Assigned to:</b></u>						
Debt Service	0	0	0	0	21,041	21,041
Purchases on Order	2,509	0	0	0	0	2,509
<i>Total Assigned</i>	<u>2,509</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>21,041</u>	<u>23,550</u>
Unassigned	1,206,894	0	0	0	0	1,206,894
<b>Total Fund Balances</b>	<b><u><u>\$1,212,228</u></u></b>	<b><u><u>\$225,432</u></u></b>	<b><u><u>\$212,230</u></u></b>	<b><u><u>\$204,485</u></u></b>	<b><u><u>\$401,402</u></u></b>	<b><u><u>\$2,255,777</u></u></b>

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2012*

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**Note 21 – Capital Lease**

During 2012, the City entered into a capital lease with FirstMerit Bank, N.A., for a snow plow. This lease will end in 2017. The lease obligation meets the criteria of a capital lease and has been recorded on the government-wide statements. The capital asset was capitalized at the present value of the minimum lease payments at the time the lease was entered into.

The asset acquired through capital lease is as follows:

	Governmental Activities
Asset:	
Vehicles	\$93,047
Less: Accumulated depreciation	(6,203)
Total	\$86,844

The snow plow lease provides for minimum, annual lease payments as follows:

	Governmental Activities
2013	\$20,582
2014	20,582
2015	20,582
2016	20,582
2017	10,292
Total Minimum Lease Payment	92,620
Less: Amount Representing Interest	(8,119)
Present Value of Minimum Lease Payments	\$84,501

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Canal Fulton, Stark County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 22, 2013.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

101 Central Plaza South, 700 Chase Tower, Canton, Ohio 44702-1509  
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[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

July 22, 2013

CITY OF CANAL FULTON  
STARK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-001	Finding for Recovery Repaid Under Audit - Overpayment	Yes	Corrected

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# Dave Yost • Auditor of State

**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  
SEPTEMBER 5, 2013**