



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
Canal Fulton, Ohio 44614

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Canal Fulton, Stark County, Ohio (the City), as of and for the year ended December 31, 2013, 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 Government'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 Government'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 City of Canal Fulton, Stark County, Ohio, as of December 31, 2013, 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 special revenue 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 August 14, 2014, 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

September 22, 2014

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

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, 2013. 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 2013 are as follows:

- The 2013 income tax collections (on a cash basis) were approximately \$2.2 million, which is one percent higher than 2012. This continued growth is attributed to the impact of the regional economic growth on the City as a 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 is being phased-in over five years. In 2013, the second year of the phase-in, the total water fee collections equaled approximately \$807,000 on a cash basis, which is three percent higher than 2012.
- In December 2012, City Council approved a sewer rate increase, which is being phased-in over four years. In 2013, the first year of the phase-in, the total sewer collections equaled approximately \$692,000 on a cash basis, which is four percent higher than 2012.
- During 2013, the City made substantial investments in its road infrastructure. The largest was the resurfacing of Locust and Portage Streets, which was a \$1.3 million project shared by the City, Stark County, and the Ohio Public Works Commission (OPWC).

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 Activities provide information from a summary perspective showing the effects of the operations for the year 2013 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, transportation 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 8. 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 seven major funds, the general fund, the street maintenance fund, the police fund, the fire/EMS fund, the capital improvements 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

City of Canal Fulton, Ohio
Management's Discussion and Analysis
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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 2013 as it compares to 2012.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and Other Assets	\$3,274,856	\$3,252,040	\$1,302,700	\$1,113,432	\$4,577,556	\$4,365,472
Capital Assets, Net	10,378,764	9,586,910	8,032,508	8,133,357	18,411,272	17,720,267
<i>Total Assets</i>	<u>13,653,620</u>	<u>12,838,950</u>	<u>9,335,208</u>	<u>9,246,789</u>	<u>22,988,828</u>	<u>22,085,739</u>
Liabilities						
Current Liabilities	118,946	161,640	47,052	54,931	165,998	216,571
Long-Term Liabilities:						
Due Within One Year	88,241	77,576	147,436	142,438	235,677	220,014
Due in More Than One Year	1,066,672	1,154,662	1,396,526	1,541,858	2,463,198	2,696,520
<i>Total Liabilities</i>	<u>1,273,859</u>	<u>1,393,878</u>	<u>1,591,014</u>	<u>1,739,227</u>	<u>2,864,873</u>	<u>3,133,105</u>
Deferred Inflows of Resources	<u>299,519</u>	<u>281,060</u>	<u>0</u>	<u>0</u>	<u>299,519</u>	<u>281,060</u>
Net Position						
Net Investment in Capital Assets	9,286,839	8,417,409	6,523,767	6,484,989	15,810,606	14,902,398
Restricted for:						
Capital Projects	141,739	203,907	0	0	141,739	203,907
Street Repair and Maintenance	445,553	448,063	0	0	445,553	448,063
Police Protection	194,407	204,411	0	0	194,407	204,411
Other Purposes	14,168	11,386	0	0	14,168	11,386
Unclaimed Monies	2,825	2,825	0	0	2,825	2,825
Unrestricted	1,994,711	1,876,011	1,220,427	1,022,573	3,215,138	2,898,584
<i>Total Net Position</i>	<u>\$12,080,242</u>	<u>\$11,164,012</u>	<u>\$7,744,194</u>	<u>\$7,507,562</u>	<u>\$19,824,436</u>	<u>\$18,671,574</u>

City of Canal Fulton, Ohio
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Total assets increased in 2013 as a result of an increase in non-depreciable capital assets due to large construction in progress additions, the most significant of which related to road resurfacing projects.

Long-term liabilities decreased slightly due to the paying down of debt.

Table 2 shows the change in net position for 2013 as it compares to 2012.

Table 2
Change in Net Position

	Governmental		Business - Type		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for Services and Sales	\$178,705	\$242,252	\$1,673,319	\$1,538,412	\$1,852,024	\$1,780,664
Operating Grants and Contributions	329,947	324,353	0	0	329,947	324,353
Capital Grants and Contributions	765,324	75	0	0	765,324	75
Total Program Revenues	<u>1,273,976</u>	<u>566,680</u>	<u>1,673,319</u>	<u>1,538,412</u>	<u>2,947,295</u>	<u>2,105,092</u>
General Revenues:						
Property Taxes	280,098	344,277	0	0	280,098	344,277
Income Taxes	2,250,280	2,198,849	0	0	2,250,280	2,198,849
Grants and Entitlements	145,860	133,897	0	0	145,860	133,897
Interest	1,232	80	0	0	1,232	80
Other	41,633	63,475	13,395	3,472	55,028	66,947
Total General Revenues	<u>2,719,103</u>	<u>2,740,578</u>	<u>13,395</u>	<u>3,472</u>	<u>2,732,498</u>	<u>2,744,050</u>
Total Revenues	<u>3,993,079</u>	<u>3,307,258</u>	<u>1,686,714</u>	<u>1,541,884</u>	<u>5,679,793</u>	<u>4,849,142</u>
Program Expenses						
General Government	763,165	690,025	0	0	763,165	690,025
Security of Persons and Property	1,592,712	1,401,939	0	0	1,592,712	1,401,939
Transportation	481,443	439,701	0	0	481,443	439,701
Leisure Time Activities	124,813	140,071	0	0	124,813	140,071
Interest and Fiscal Charges	54,716	57,128	0	0	54,716	57,128
Water	0	0	648,508	608,981	648,508	608,981
Sewer	0	0	861,574	767,769	861,574	767,769
Total Program Expenses	<u>3,016,849</u>	<u>2,728,864</u>	<u>1,510,082</u>	<u>1,376,750</u>	<u>4,526,931</u>	<u>4,105,614</u>
Increase/(Decrease) in Net Position						
Before Transfers	976,230	578,394	176,632	165,134	1,152,862	743,528
Transfers	<u>(60,000)</u>	<u>(60,000)</u>	<u>60,000</u>	<u>60,000</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Position	916,230	518,394	236,632	225,134	1,152,862	743,528
Net Position Beginning of Year	11,164,012	10,645,618	7,507,562	7,282,428	18,671,574	17,928,046
Net Position End of Year	<u>\$12,080,242</u>	<u>\$11,164,012</u>	<u>\$7,744,194</u>	<u>\$7,507,562</u>	<u>\$19,824,436</u>	<u>\$18,671,574</u>

In 2013, total revenues were greater than total revenues in the prior year. A large part of this increase is due to a sharp increase in capital grants and contributions from Stark County and OPWC for the purpose of resurfacing roads.

Both governmental and business-type expenses were higher in 2013 than in the prior year. The major contributing factors to these increases were increases in personal services related to security of persons and property expenses and water operating expenses.

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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 \$2,250,280.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities, representing 52.79 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, secretary, and nine 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 and fire departments 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 2,040 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 1,912 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.

City of Canal Fulton, Ohio
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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 \$15.33 per month. Sewer customers without a water meter pay an unmetered flat sewer rate of \$28.02 per month. As of December 31, 2013, 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 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. The Stark County Metropolitan Sewer District subsequently reimburses the City forty-percent of capital expenditures incurred for the wastewater treatment plant. In addition, the Stark County Metropolitan Sewer District reimburses the City for the operating expenses incurred within the Joint User Costs System based upon the number of City and Stark County Metropolitan Sewer District users connected to the sewer system.

As of December 31, 2013, 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 2013, the City sewer utility received \$122,353 (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 2013, revenues of \$1,686,714 were more than the total expenses for the utilities of \$1,510,082, resulting in income before transfers of \$176,632 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$3,988,349 and expenditures of \$3,885,188. The City's general fund reflected an increase in fund balance of \$154,638, which was less than the prior year due to a decrease in total revenue accompanied by an increase in expenditures and transfers out to other funds, and carries forward an ending fund balance of \$1,366,866. The street maintenance, police, fire/ems, and capital improvements funds had negative changes in fund balance with ending fund balances of \$213,689, \$198,527, \$180,668 and \$65,848, respectively. The street maintenance fund's current year revenues were unable to cover its current year expenditures, and although the police, fire/ems, and capital improvements funds received transfers in during 2013, they were not sufficient to cover current year expenditures.

Information about the proprietary funds starts on page 24. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$1,686,714 and an operating income of \$198,438.

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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 personnel costs and other non-payroll costs appropriation groups 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 its 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 \$2,429,542 and \$2,432,364, respectively, and actual revenue collections were \$2,438,530. The increase in budgeted to actual revenue was primarily due to higher intergovernmental revenue.

Also in the general fund, the original budgeted expenditures and final budgeted expenditures were \$900,408 and \$871,783, respectively. The actual expenditures were \$758,637. 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 \$32,900, \$14,700, \$12,300, and \$19,900, respective, less than anticipated. The City's ending unencumbered cash balance in the general fund was \$119,312 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	
	2013	2012	2013	2012	2013	2012
Land	\$3,023,152	\$3,023,152	\$234,514	\$234,514	\$3,257,666	\$3,257,666
Construction in Progress	923,540	22,349	102,201	11,661	1,025,741	34,010
Buildings and Improvements	2,925,436	2,989,939	2,096,749	2,184,209	5,022,185	5,174,148
Equipment and Machinery	93,967	129,632	72,145	28,754	166,112	158,386
Vehicles	205,012	159,848	27,451	32,026	232,463	191,874
Infrastructure						
Roads	1,307,463	1,321,966	0	0	1,307,463	1,321,966
Storm Sewers	1,900,194	1,940,024	0	0	1,900,194	1,940,024
Water Lines	0	0	2,996,317	3,081,786	2,996,317	3,081,786
Sewer Lines	0	0	2,503,131	2,560,407	2,503,131	2,560,407
Totals	<u>\$10,378,764</u>	<u>\$9,586,910</u>	<u>\$8,032,508</u>	<u>\$8,133,357</u>	<u>\$18,411,272</u>	<u>\$17,720,267</u>

Total capital assets for the City at December 31, 2013, were valued at \$18,411,272, which reflects an increase of \$691,005 from the 2012 ending balance of \$17,720,267. The primary cause for this increase in capital assets is due to a large increase in construction in progress related to the inception of large capital projects. 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, 2013, was \$2,608,308. This balance reflects a decrease of \$220,904 from the previous year's balance of \$2,829,212, which is a decrease of 7.81 percent.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$1,032,642	\$1,093,279	\$0	\$0	\$1,032,642	\$1,093,279
Water Bonds	0	0	507,809	538,064	507,809	538,064
OPWC Loans	0	0	1,000,932	1,113,368	1,000,932	1,113,368
Capital Lease	66,925	84,501	0	0	66,925	84,501
Totals	<u>\$1,099,567</u>	<u>\$1,177,780</u>	<u>\$1,508,741</u>	<u>\$1,651,432</u>	<u>\$2,608,308</u>	<u>\$2,829,212</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.

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Unaudited

The water bonds category 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 Local School District 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, which the 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 2041.

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 \$2,243,561 in 2013. 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 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 funds are used to support the operating expenses and capital improvements for all City departments except the water and sewer utilities. Because income taxes represent the primary source for funding the City's traditional government functions (Police, Fire, Administration, etc.), it is vital that the City continue to monitor income tax collections to ensure future growth.

The City worked on several large scale road improvements during 2013 including resurfacing Locust and Portage Streets, planning to widen the Cherry and Locust Streets intersection, and completing the annual chip and seal maintenance program. The Locust and Portage Streets resurfacing project was substantially completed during 2013, with finalization of the project to occur in 2014. When completed, the total cost of the project is estimated to be approximately \$1.2 million, with funding coming from the City (14 percent), Stark County (12 percent), and the Ohio Public Works Commission (74 percent). Similarly, the City developed engineering plans for widening the Cherry and Locust Street intersection, which is expected to cost approximately \$1.9 million with federal grants paying 80 percent. It is anticipated that planning for this project will continue throughout 2014, with construction starting in 2015 and total project completion occurring in 2016. Finally, the City completed a substantial chip and seal program in 2013 with 6.8 miles of roadway being resurfaced at a cost of approximately \$58,000.

The majority of the City's 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. The City did not issue any additional debt during 2013. However, the City was awarded an OPWC twenty-year, zero percent interest loan for approximately \$174,000 to reconstruct the influent bar screen at the Wastewater Treatment Plant. The City was also awarded an OPWC twenty-year, zero percent interest loan for approximately \$145,000 to reconstruct the Wooster Street Storm Sewer. It is anticipated that both projects will receive the loan proceeds and be completed during 2014, and debt service payments will begin in 2015.

City Council adopted ordinances in 2011 and 2012 that created five-year phase in plans for increasing the water and sewer rates. The increase in water fees has enabled the City to stop the historical practice of subsidizing the water utility via transfers from the general fund, and to continue repaying the \$150,000 advance made by the general fund to the water utility in 2011. Similarly, the sewer rate increase has

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

enabled the sewer utility to make substantial investments in capital upgrades including needed building repairs, reconstruction of the influent bar screen, and required maintenance to sewer infrastructure. Once complete, the rate increases should allow both utilities to build reserves to fund future capital improvements and meet the increased debt service requirements.

In conclusion, between the growth in income tax collections, the scheduled rate increases for the utilities, taking advantage of grants and other partnership opportunities, and prudent management; the City has taken appropriate steps to ensure that it continues to maintain financial stability and is prepared to meet future challenges.

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, William Rouse, City of Canal Fulton, 155 East Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at www.cityofcanalfulton.org.

City of Canal Fulton, Ohio

Statement of Net Position

December 31, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,046,434	\$1,199,998	\$3,246,432
Accrued Interest Receivable	400	0	400
Accounts Receivable	10,290	147,578	157,868
Internal Balances	50,000	(50,000)	0
Intergovernmental Receivable	266,990	0	266,990
Materials and Supplies Inventory	17,868	5,124	22,992
Income Taxes Receivable	573,077	0	573,077
Property Taxes Receivable	309,797	0	309,797
Nondepreciable Capital Assets	3,946,692	336,715	4,283,407
Depreciable Capital Assets, Net	6,432,072	7,695,793	14,127,865
<i>Total Assets</i>	<u>13,653,620</u>	<u>9,335,208</u>	<u>22,988,828</u>
Liabilities			
Accounts Payable	62,248	20,447	82,695
Accrued Wages	9,675	4,316	13,991
Intergovernmental Payable	33,476	11,126	44,602
Vacation Benefits Payable	8,685	4,769	13,454
Accrued Interest Payable	4,862	6,394	11,256
Long-Term Liabilities:			
Due Within One Year	88,241	147,436	235,677
Due In More Than One Year	1,066,672	1,396,526	2,463,198
<i>Total Liabilities</i>	<u>1,273,859</u>	<u>1,591,014</u>	<u>2,864,873</u>
Deferred Inflows of Resources			
Property Taxes	299,519	0	299,519
Net Position			
Net Investment in Capital Assets	9,286,839	6,523,767	15,810,606
Restricted for:			
Capital Projects	141,739	0	141,739
Street Repair and Maintenance	445,553	0	445,553
Police Protection	194,407	0	194,407
Other Purposes	14,168	0	14,168
Unclaimed Monies	2,825	0	2,825
Unrestricted	1,994,711	1,220,427	3,215,138
<i>Total Net Position</i>	<u>\$12,080,242</u>	<u>\$7,744,194</u>	<u>\$19,824,436</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Activities
For the Year Ended December 31, 2013

	Program Revenues			
	Expenses	Charges for Service and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$763,165	\$12,625	\$1,323	\$0
Security of Persons and Property	1,592,712	124,829	5,293	0
Transportation	481,443	274	322,892	765,074
Leisure Time Activities	124,813	40,977	439	250
Interest and Fiscal Charges	54,716	0	0	0
<i>Total Governmental Activities</i>	<u>3,016,849</u>	<u>178,705</u>	<u>329,947</u>	<u>765,324</u>
Business-Type Activities:				
Water	648,508	834,882	0	0
Sewer	861,574	838,437	0	0
<i>Total Business-Type Activities</i>	<u>1,510,082</u>	<u>1,673,319</u>	<u>0</u>	<u>0</u>
<i>Total</i>	<u><u>\$4,526,931</u></u>	<u><u>\$1,852,024</u></u>	<u><u>\$329,947</u></u>	<u><u>\$765,324</u></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

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
(\$749,217)	\$0	(\$749,217)
(1,462,590)	0	(1,462,590)
606,797	0	606,797
(83,147)	0	(83,147)
(54,716)	0	(54,716)
<u>(1,742,873)</u>	<u>0</u>	<u>(1,742,873)</u>
0	186,374	186,374
<u>0</u>	<u>(23,137)</u>	<u>(23,137)</u>
<u>0</u>	<u>163,237</u>	<u>163,237</u>
<u>(1,742,873)</u>	<u>163,237</u>	<u>(1,579,636)</u>
184,194	0	184,194
95,904	0	95,904
2,099,510	0	2,099,510
150,770	0	150,770
145,860	0	145,860
1,232	0	1,232
41,633	13,395	55,028
2,719,103	13,395	2,732,498
<u>(60,000)</u>	<u>60,000</u>	<u>0</u>
<u>2,659,103</u>	<u>73,395</u>	<u>2,732,498</u>
916,230	236,632	1,152,862
<u>11,164,012</u>	<u>7,507,562</u>	<u>18,671,574</u>
<u>\$12,080,242</u>	<u>\$7,744,194</u>	<u>\$19,824,436</u>

City of Canal Fulton, Ohio

Balance Sheet

Governmental Funds

December 31, 2013

	General	Street Maintenance	Police	Fire/ EMS	Capital Improvements
Assets					
Equity in Pooled Cash and Cash Equivalents	\$643,003	\$188,578	\$209,155	\$193,593	\$539,892
Accrued Interest Receivable	400	0	0	0	0
Accounts Receivable	3,217	0	0	7,073	0
Interfund Receivable	550,000	0	0	0	0
Intergovernmental Receivable	61,785	109,651	0	0	32,154
Income Taxes Receivable	534,680	0	38,397	0	0
Property Taxes Receivable	188,306	0	0	0	0
Materials and Supplies Inventory	0	17,868	0	0	0
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	2,825	0	0	0	0
Total Assets	\$1,984,216	\$316,097	\$247,552	\$200,666	\$572,046
Liabilities					
Accounts Payable	\$25,768	\$10,079	\$5,650	\$10,377	\$6,198
Accrued Wages	1,659	961	4,718	2,337	0
Intergovernmental Payable	7,668	3,759	14,453	7,284	0
Interfund Payable	0	0	0	0	500,000
Total Liabilities	35,095	14,799	24,821	19,998	506,198
Deferred Inflows of Resources					
Property Taxes	181,544	0	0	0	0
Unavailable Revenue	400,711	87,609	24,204	0	0
Total Deferred Inflows of Resources	582,255	87,609	24,204	0	0
Fund Balances					
Nonspendable	2,825	17,868	0	0	0
Restricted	0	195,821	198,527	0	65,848
Committed	0	0	0	180,668	0
Assigned	3,436	0	0	0	0
Unassigned	1,360,605	0	0	0	0
Total Fund Balances	1,366,866	213,689	198,527	180,668	65,848
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$1,984,216	\$316,097	\$247,552	\$200,666	\$572,046

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, 2013*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$2,298,938
		<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.	10,378,764
\$269,388	\$2,043,609	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
0	400	Delinquent Property Taxes	10,278
0	10,290	Income Taxes	361,247
0	550,000	Grants	199,475
63,400	266,990	Total	571,000
0	573,077		
121,491	309,797	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.	(8,685)
0	17,868		
0	2,825	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(4,862)
\$454,279	\$3,774,856	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
		General Obligation Bonds	(1,025,000)
\$4,176	\$62,248	Lease Payable	(66,925)
0	9,675	Bond Premiums	(7,642)
312	33,476	Compensated Absences	(55,346)
0	500,000	Total	(1,154,913)
4,488	605,399	<i>Net Position of Governmental Activities</i>	\$12,080,242
117,975	299,519		
58,476	571,000		
176,451	870,519		
0	20,693		
227,124	687,320		
30,145	210,813		
16,071	19,507		
0	1,360,605		
273,340	2,298,938		
\$454,279	\$3,774,856		

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	Street Maintenance	Police	Fire/ EMS	Capital Improvements
Revenues					
Property Taxes	\$185,420	\$0	\$0	\$0	\$0
Income Taxes	2,090,189	0	150,100	0	0
Charges for Services	7,008	0	0	129,837	0
Fines, Licenses and Permits	6,918	0	699	0	0
Intergovernmental	122,641	236,969	0	3,500	762,284
Interest	1,164	45	0	0	0
Contributions and Donations	1,460	0	1,793	0	2,790
Other	20,375	3,537	7,502	0	8,207
<i>Total Revenues</i>	<u>2,435,175</u>	<u>240,551</u>	<u>160,094</u>	<u>133,337</u>	<u>773,281</u>
Expenditures					
Current:					
General Government	686,620	0	0	0	0
Security of Persons and Property	0	0	1,011,797	482,154	0
Transportation	14,917	252,294	0	0	0
Leisure Time Activities	56,000	0	0	0	0
Capital Outlay	0	0	0	0	1,099,936
Debt Service:					
Principal Retirement	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0
<i>Total Expenditures</i>	<u>757,537</u>	<u>252,294</u>	<u>1,011,797</u>	<u>482,154</u>	<u>1,099,936</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,677,638</u>	<u>(11,743)</u>	<u>(851,703)</u>	<u>(348,817)</u>	<u>(326,655)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	838,000	325,000	275,000
Transfers Out	(1,523,000)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,523,000)</u>	<u>0</u>	<u>838,000</u>	<u>325,000</u>	<u>275,000</u>
<i>Net Change in Fund Balances</i>	154,638	(11,743)	(13,703)	(23,817)	(51,655)
<i>Fund Balances Beginning of Year</i>	<u>1,212,228</u>	<u>225,432</u>	<u>212,230</u>	<u>204,485</u>	<u>117,503</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,366,866</u></u>	<u><u>\$213,689</u></u>	<u><u>\$198,527</u></u>	<u><u>\$180,668</u></u>	<u><u>\$65,848</u></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, 2013*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$43,161
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$96,231	\$281,651	Governmental funds report capital outlay as an expenditure.	
0	2,240,289	However, in the statement of activities, the cost of those	
39,950	176,795	assets is allocated over their estimated useful lives as	
3,914	11,531	depreciation expense. This is the amount by which	
103,200	1,228,594	capital outlay exceeded depreciation in the current period.	
23	1,232	Capital Asset Additions	1,084,877
581	6,624	Current Year Depreciation	<u>(293,023)</u>
2,012	41,633		
<u>245,911</u>	<u>3,988,349</u>	Total	791,854
		Revenues in the statement of activities that do not provide	
		current financial resources are not reported as revenues	
		in the funds.	
10,513	697,133	Delinquent Property Taxes	(1,553)
3,881	1,497,832	Income Taxes	9,991
73,879	341,090	Grants	5,913
43,009	99,009	Charges for Services	<u>(9,621)</u>
16,856	1,116,792		
77,576	77,576	Total	4,730
55,756	55,756		
<u>281,470</u>	<u>3,885,188</u>	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.	77,576
(35,559)	103,161	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.	
25,000	1,463,000	Accrued Interest	403
0	(1,523,000)	Amortization of Premium on Bonds	<u>637</u>
<u>25,000</u>	<u>(60,000)</u>	Total	1,040
(10,559)	43,161	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.	
283,899	2,255,777	Compensated Absences	(888)
\$273,340	\$2,298,938	Vacation Benefits Payable	<u>(1,243)</u>
		Total	<u>(2,131)</u>
		<i>Change in Net Position of Governmental Activities</i>	<u><u>\$916,230</u></u>

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, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$189,507	\$189,727	\$185,420	(\$4,307)
Income Taxes	2,102,225	2,104,667	2,093,242	(11,425)
Charges for Services	5,094	5,100	7,008	1,908
Fines, Licenses and Permits	7,467	7,475	6,809	(666)
Intergovernmental	105,572	105,695	122,671	16,976
Interest	0	0	764	764
Contributions and Donations	499	500	1,460	960
Other	19,178	19,200	21,156	1,956
<i>Total Revenues</i>	2,429,542	2,432,364	2,438,530	6,166
Expenditures				
Current:				
General Government	812,828	786,985	686,490	100,495
Transportation	15,778	15,275	14,917	358
Leisure Time Activities	71,802	69,523	57,230	12,293
<i>Total Expenditures</i>	900,408	871,783	758,637	113,146
<i>Excess of Revenues Over Expenditures</i>	1,529,134	1,560,581	1,679,893	119,312
Other Financing Sources (Uses)				
Advances In	49,942	50,000	50,000	0
Advances Out	(516,465)	(500,000)	(500,000)	0
Transfers Out	(1,573,152)	(1,523,000)	(1,523,000)	0
<i>Total Other Financing Sources (Uses)</i>	(2,039,675)	(1,973,000)	(1,973,000)	0
<i>Net Change in Fund Balance</i>	(510,541)	(412,419)	(293,107)	119,312
<i>Fund Balance Beginning of Year</i>	922,786	922,786	922,786	0
Prior Year Encumbrances Appropriated	2,509	2,509	2,509	0
<i>Fund Balance End of Year</i>	\$414,754	\$512,876	\$632,188	\$119,312

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, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$231,043	\$231,043	\$232,876	\$1,833
Interest	0	0	45	45
Other	0	0	3,537	3,537
<i>Total Revenues</i>	231,043	231,043	236,458	5,415
Expenditures				
Current:				
Transportation	290,275	299,919	257,728	42,191
<i>Net Change in Fund Balance</i>	(59,232)	(68,876)	(21,270)	47,606
<i>Fund Balance Beginning of Year</i>	188,482	188,482	188,482	0
Prior Year Encumbrances Appropriated	3,825	3,825	3,825	0
<i>Fund Balance End of Year</i>	<u>\$133,075</u>	<u>\$123,431</u>	<u>\$171,037</u>	<u>\$47,606</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, 2013

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$143,806	\$150,333	\$150,319	(\$14)
Fines, Licenses and Permits	669	700	699	(1)
Intergovernmental	43,046	45,000	0	(45,000)
Contributions and Donations	0	0	1,793	1,793
Other	2,391	2,500	7,502	5,002
<i>Total Revenues</i>	189,912	198,533	160,313	(38,220)
Expenditures				
Current:				
Security of Persons and Property	1,036,199	1,104,699	1,057,926	46,773
<i>Excess of Revenues Under Expenditures</i>	(846,287)	(906,166)	(897,613)	8,553
Other Financing Sources				
Transfers In	801,619	838,000	838,000	0
<i>Net Change in Fund Balance</i>	(44,668)	(68,166)	(59,613)	8,553
<i>Fund Balance Beginning of Year</i>	259,970	259,970	259,970	0
Prior Year Encumbrances Appropriated	2,287	2,287	2,287	0
<i>Fund Balance End of Year</i>	<u>\$217,589</u>	<u>\$194,091</u>	<u>\$202,644</u>	<u>\$8,553</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, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Charges for Services	\$120,000	\$120,000	\$131,215	\$11,215
Intergovernmental	4,000	4,000	3,500	(500)
<i>Total Revenues</i>	124,000	124,000	134,715	10,715
Expenditures				
Current:				
Security of Persons and Property	507,053	515,628	487,090	28,538
<i>Excess of Revenues Under Expenditures</i>	(383,053)	(391,628)	(352,375)	39,253
Other Financing Sources				
Transfers In	325,000	325,000	325,000	0
<i>Net Change in Fund Balance</i>	(58,053)	(66,628)	(27,375)	39,253
<i>Fund Balance Beginning of Year</i>	211,140	211,140	211,140	0
Prior Year Encumbrances Appropriated	7,289	7,289	7,289	0
<i>Fund Balance End of Year</i>	<u>\$160,376</u>	<u>\$151,801</u>	<u>\$191,054</u>	<u>\$39,253</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2013

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$597,944	\$602,054	\$1,199,998
Materials and Supplies Inventory	841	4,283	5,124
Accounts Receivable	78,835	68,743	147,578
<i>Total Current Assets</i>	<u>677,620</u>	<u>675,080</u>	<u>1,352,700</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	70,867	265,848	336,715
Depreciable Capital Assets, Net	3,833,607	3,862,186	7,695,793
<i>Total Noncurrent Assets</i>	<u>3,904,474</u>	<u>4,128,034</u>	<u>8,032,508</u>
<i>Total Assets</i>	<u>4,582,094</u>	<u>4,803,114</u>	<u>9,385,208</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	6,541	13,906	20,447
Accrued Wages	2,005	2,311	4,316
Intergovernmental Payable	5,531	5,595	11,126
Interfund Payable	50,000	0	50,000
Vacation Benefits Payable	1,925	2,844	4,769
Accrued Interest Payable	6,394	0	6,394
General Obligation Bonds Payable	35,000	0	35,000
OPWC Loans Payable	68,892	43,544	112,436
<i>Total Current Liabilities</i>	<u>176,288</u>	<u>68,200</u>	<u>244,488</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	10,281	24,940	35,221
General Obligation Bonds Payable	472,809	0	472,809
OPWC Loans Payable	478,828	409,668	888,496
<i>Total Long-Term Liabilities</i>	<u>961,918</u>	<u>434,608</u>	<u>1,396,526</u>
<i>Total Liabilities</i>	<u>1,138,206</u>	<u>502,808</u>	<u>1,641,014</u>
Net Position			
Net Investment in Capital Assets	2,848,945	3,674,822	6,523,767
Unrestricted	594,943	625,484	1,220,427
<i>Total Net Position</i>	<u>\$3,443,888</u>	<u>\$4,300,306</u>	<u>\$7,744,194</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, 2013*

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$834,882	\$838,437	\$1,673,319
Other	5,992	7,403	13,395
<i>Total Operating Revenues</i>	<u>840,874</u>	<u>845,840</u>	<u>1,686,714</u>
Operating Expenses			
Personal Services	277,635	277,269	554,904
Fringe Benefits	92,339	108,203	200,542
Contractual Services	85,841	281,985	367,826
Materials and Supplies	43,420	25,677	69,097
Depreciation	120,195	149,809	270,004
Other	7,272	18,631	25,903
<i>Total Operating Expenses</i>	<u>626,702</u>	<u>861,574</u>	<u>1,488,276</u>
<i>Operating Income (Loss)</i>	214,172	(15,734)	198,438
Non-Operating Expenses			
Interest and Fiscal Charges	<u>(21,806)</u>	<u>0</u>	<u>(21,806)</u>
<i>Income (Loss) before Transfers</i>	192,366	(15,734)	176,632
Transfers In	<u>60,000</u>	<u>0</u>	<u>60,000</u>
<i>Change in Net Position</i>	252,366	(15,734)	236,632
<i>Net Position Beginning of Year</i>	<u>3,191,522</u>	<u>4,316,040</u>	<u>7,507,562</u>
<i>Net Position End of Year</i>	<u><u>\$3,443,888</u></u>	<u><u>\$4,300,306</u></u>	<u><u>\$7,744,194</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, 2013

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$826,873	\$828,495	\$1,655,368
Other Cash Receipts	5,992	7,403	13,395
Cash Payments to Employees for Services	(389,252)	(388,519)	(777,771)
Cash Payments for Goods and Services	(124,769)	(294,866)	(419,635)
Other Cash Payments	(7,272)	(18,631)	(25,903)
<i>Net Cash Provided by Operating Activities</i>	<u>311,572</u>	<u>133,882</u>	<u>445,454</u>
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Bonds	(30,000)	0	(30,000)
Interest Paid on Bonds	(22,413)	0	(22,413)
Principal Paid on OPWC Loans	(68,893)	(43,543)	(112,436)
Payments for Capital Acquisitions	(31,924)	(137,231)	(169,155)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(153,230)</u>	<u>(180,774)</u>	<u>(334,004)</u>
Cash Flows from Noncapital Financing Activities			
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 (Decrease) in Cash and Cash Equivalents</i>	168,342	(46,892)	121,450
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>429,602</u>	<u>648,946</u>	<u>1,078,548</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$597,944</u></u>	<u><u>\$602,054</u></u>	<u><u>\$1,199,998</u></u>

(continued)

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$214,172	(\$15,734)	\$198,438
Adjustments:			
Depreciation	120,195	149,809	270,004
(Increase) Decrease in Assets:			
Materials and Supplies Inventory	22	111	133
Accounts Receivable	(8,009)	(9,942)	(17,951)
Increase (Decrease) in Liabilities:			
Accounts Payable	4,100	12,315	16,415
Accrued Wages	(8,159)	(7,853)	(16,012)
Intergovernmental Payable	(5,059)	(4,712)	(9,771)
Vacation Benefits Payable	461	1,380	1,841
Compensated Absences Payable	(6,151)	8,508	2,357
<i>Net Cash Provided by Operating Activities</i>	<u>\$311,572</u>	<u>\$133,882</u>	<u>\$445,454</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2013

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$10,635</u>
Liabilities	
Undistributed Assets	<u>\$10,635</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, 2013

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 approves the budget, the issuance of debt, or the levying of taxes and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. 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.

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, 2013

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, 2013

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.

Capital Improvements Fund The capital improvements fund accounts for and reports grant and contribution monies restricted for capital improvements 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 two agency funds, one of which is used for performance bonds and security deposits, while the other is maintained for general purposes.

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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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 revenues, expenses and 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.

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 statement of net 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 statement of net position reports 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, 2013, but which were levied to finance 2014 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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

not be collected within the available period. For the City, unavailable revenue includes income taxes, delinquent property taxes, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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 2013 amounted to \$1,164, which includes \$775 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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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.

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:

Description	Estimated Lives
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. The City only reports the amounts acquired after 2002. The City plans to phase in the prior year amounts for roads and bridges in future years.

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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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.

Fund Balances

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 equally 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 equally 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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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.

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 receipted in the year the bonds are issued.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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 fiscal year 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34". GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units' presentation and certain disclosure requirements. 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 capital improvements fund had final appropriations in excess of certified available resources by \$22. Management has indicated that appropriations will be closely monitored to ensure no further violations.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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

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	\$154,638	(\$11,743)	(\$13,703)	(\$23,817)
Net Adjustment for Revenue Accruals	3,355	(4,093)	219	1,378
Advances In	50,000	0	0	0
Net Adjustment for Expenditure Accruals	12,540	12,107	(39,618)	(2,397)
Advances Out	(500,000)	0	0	0
Encumbrances	(13,640)	(17,541)	(6,511)	(2,539)
Budget Basis	<u>(\$293,107)</u>	<u>(\$21,270)</u>	<u>(\$59,613)</u>	<u>(\$27,375)</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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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;
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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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 \$3,257,067. Of the bank balance of \$3,281,092, \$685,510 was covered by Federal depository insurance and \$2,595,582 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, 2013, 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.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections of 2012 taxes.

2013 real property taxes were levied after October 1, 2013, on the assessed value as of January 1, 2013, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2013 real property taxes are collected in and intended to finance 2014.

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. 2013 public utility property taxes which became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2013, was \$3.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2013 property tax receipts were based are as follows:

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

	Assessed Value
Real Property	\$82,936,250
Public Utility Property	1,308,760
Total	\$84,245,010

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, 2013 and for which there is an enforceable legal claim. In the general fund and downtown improvement debt service fund, the entire receivable has been offset by deferred inflows of resources – property taxes since the current taxes were not levied to finance 2013 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.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amount
<i>Governmental Activities:</i>	
Gasoline Tax	\$106,699
Homestead and Rollback	47,910
Permissive Motor Vehicle License Tax	36,703
Grants	32,154
Local Government	31,048
Motor Vehicle License Tax	8,649
Miscellaneous	3,827
Total	\$266,990

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

Note 8 – Interfund Transactions

Interfund Balances

Interfund balances at December 31, 2013, consist of an interfund receivable in the general fund of \$550,000 and corresponding interfund payables in the water and capital improvements funds of \$50,000 and \$500,000, respectively. The advances were made to cover water fund operating expenses and capital improvement fund activities.

Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

Transfer to	Transfer From General
Police	\$838,000
Fire/EMS	325,000
Capital Improvements	275,000
Other Governmental Funds	25,000
Water	60,000
Total	\$1,523,000

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

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 2013, 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

City of Canal Fulton, Ohio
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For the Year Ended December 31, 2013

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 2013 were \$1,110.78 for family, \$665.93 for employee and spouse, \$524.89 for employee and children, and \$310.65 for single.

Note 11 – Contingencies

Litigation

The City is not party to legal proceedings as of December 31, 2013.

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, 2013.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

Note 12 – Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$3,023,152	\$0	\$0	\$3,023,152
Construction in Progress	22,349	901,191	0	923,540
Total Capital Assets not being depreciated	<u>3,045,501</u>	<u>901,191</u>	<u>0</u>	<u>3,946,692</u>
Capital Assets being depreciated:				
Buildings and Improvements	5,020,167	37,647	0	5,057,814
Equipment and Machinery	455,532	0	0	455,532
Vehicles	1,224,742	71,818	0	1,296,560
Infrastructure:				
Storm Sewers	3,951,223	0	0	3,951,223
Roads	1,700,253	74,221	0	1,774,474
Total Capital Assets being depreciated	<u>12,351,917</u>	<u>183,686</u>	<u>0</u>	<u>12,535,603</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,030,228)	(102,150)	0	(2,132,378)
Equipment and Machinery	(325,900)	(35,665)	0	(361,565)
Vehicles	(1,064,894)	(26,654)	0	(1,091,548)
Infrastructure:				
Storm Sewers	(2,011,199)	(39,830)	0	(2,051,029)
Roads	(378,287)	(88,724)	0	(467,011)
Total Accumulated Depreciation	<u>(5,810,508)</u>	<u>(293,023) *</u>	<u>0</u>	<u>(6,103,531)</u>
Total Capital Assets being Depreciated, net	<u>6,541,409</u>	<u>(109,337)</u>	<u>0</u>	<u>6,432,072</u>
Governmental Activities Capital Assets, Net	<u>\$9,586,910</u>	<u>\$791,854</u>	<u>\$0</u>	<u>\$10,378,764</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$64,041
Security of Persons and Property	95,760
Transportation	107,799
Leisure Time Activities	25,423
Total Depreciation Expense	<u>\$293,023</u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

	Balance 12/31/2012	Additions	Deductions	Balance 12/31/2013
<i>Business-Type Activities:</i>				
Capital Assets not being depreciated:				
Land	\$234,514	\$0	\$0	\$234,514
Construction in Progress	11,661	90,540	0	102,201
Total Capital Assets not being depreciated	<u>246,175</u>	<u>90,540</u>	<u>0</u>	<u>336,715</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,358,908	20,580	0	4,379,488
Equipment and Machinery	104,888	52,204	0	157,092
Vehicles	192,010	0	0	192,010
Infrastructure:				
Sewer Lines	5,037,287	5,831	0	5,043,118
Water Lines	6,134,211	0	0	6,134,211
Total Capital Assets being depreciated	<u>15,827,304</u>	<u>78,615</u>	<u>0</u>	<u>15,905,919</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(2,174,699)	(108,040)	0	(2,282,739)
Equipment and Machinery	(76,134)	(8,813)	0	(84,947)
Vehicles	(159,984)	(4,575)	0	(164,559)
Infrastructure:				
Sewer Lines	(2,476,880)	(63,107)	0	(2,539,987)
Water Lines	(3,052,425)	(85,469)	0	(3,137,894)
Total Accumulated Depreciation	<u>(7,940,122)</u>	<u>(270,004)</u>	<u>0</u>	<u>(8,210,126)</u>
Total Capital Assets, being depreciated, net	<u>7,887,182</u>	<u>(191,389)</u>	<u>0</u>	<u>7,695,793</u>
Business-Type Activities Capital Assets, Net	<u><u>\$8,133,357</u></u>	<u><u>(\$100,849)</u></u>	<u><u>\$0</u></u>	<u><u>\$8,032,508</u></u>

Note 13 – Jointly Governed Organizations

Stark County Regional Planning Commission

The City participates in the Stark County Regional Planning Commission (Planning Commission), which is a statutorily created political subdivision of the State. The Planning 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 Planning 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 Planning Commission. These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Planning Commission's liabilities. In 2013, the City contributed \$548 to the Planning Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, 201 3rd Street, Suite 201, Canton, Ohio 44702.

Stark Council of Governments

The City participates in the Stark Council of Governments (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,

City of Canal Fulton, Ohio
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For the Year Ended December 31, 2013

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 2013. 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 (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 \$25,043 to the Health District in 2013. 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, 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 2013, the City made contributions of \$83,650, 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 Northwest Stark Senior Citizens Commission (Senior Citizens Commission) are appointed by the Mayor of the City. Four of the nine members of the Senior Citizens Commission are elected by the members of the Northwest Stark Senior Center. These eight members of the Senior Citizens Commission elect the remaining member. The Senior Citizens Commission administers its own staff and does not rely on the City to finance deficits. The City is not financially accountable for the Senior Citizens Commission nor is the Senior Citizens Commission financially dependent on the City. The City did not contribute any funds to the Senior Citizens Commission in 2013.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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, 2041
Northwest Waterline Bonds - 2005	3.0-4.5	730,000	March 15, 2025

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

	Amount Outstanding 12/31/2012	Additions	Deletions	Amount Outstanding 12/31/2013	Amounts Due in One Year
<i>Governmental Activities:</i>					
<u>General Obligation Bonds</u>					
Fire Station Bonds 1	\$545,000	\$0	\$30,000	\$515,000	\$35,000
Premium on Fire Station Bonds 1	5,852	0	450	5,402	0
Fire Station Bonds 2	540,000	0	30,000	510,000	35,000
Premium on Fire Station Bonds 2	2,427	0	187	2,240	0
Total General Obligation Bonds	1,093,279	0	60,637	1,032,642	70,000
Capital Lease	84,501	0	17,576	66,925	18,241
Compensated Absences	54,458	888	0	55,346	0
Total Governmental Activities	<u>\$1,232,238</u>	<u>\$888</u>	<u>\$78,213</u>	<u>\$1,154,913</u>	<u>\$88,241</u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

	Amount Outstanding 12/31/2012	Additions	Deletions	Amount Outstanding 12/31/2013	Amounts Due in One Year
<i>Business-Type Activities:</i>					
<u>OPWC Loans</u>					
Water - Canal Street	\$15,392	\$0	\$6,158	\$9,234	\$6,157
Water - Market Street	40,306	0	16,123	24,183	16,123
Water - Treatment Plant	345,340	0	30,030	315,310	30,030
Water - Milan Street	215,575	0	16,582	198,993	16,582
Sewer - Denshire Sanitary	198,165	0	20,860	177,305	20,860
Sewer - Solids Handling Improvement	188,051	0	18,805	169,246	18,805
Sewer - High Street Sanitary	110,539	0	3,878	106,661	3,879
Total OPWC Loans	<u>1,113,368</u>	<u>0</u>	<u>112,436</u>	<u>1,000,932</u>	<u>112,436</u>
<u>General Obligation Bonds</u>					
Northwest Waterline Bonds					
Serial Bonds	290,000	0	30,000	260,000	35,000
Term Bonds	245,000	0	0	245,000	0
Premium on Northwest Waterline Bonds	3,064	0	255	2,809	0
Total General Obligation Bonds	<u>538,064</u>	<u>0</u>	<u>30,255</u>	<u>507,809</u>	<u>35,000</u>
Compensated Absences	32,864	2,357	0	35,221	0
Total Business-Type Activities	<u>\$1,684,296</u>	<u>\$2,357</u>	<u>\$142,691</u>	<u>\$1,543,962</u>	<u>\$147,436</u>

The fire station bonds 1 and 2 and the capital lease are paid from the general capital projects 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 \$547,720. Principal paid for the current year was \$68,893, total net revenues were \$334,367, and total revenues were \$840,874.

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 \$453,212. Principal paid for the current year was \$43,543, total net revenues were \$134,075, and total revenues were \$845,840.

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):

City of Canal Fulton, Ohio
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For the Year Ended December 31, 2013

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 and police special revenue funds, and the water and sewer enterprise funds.

As of December 31, 2013, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,331,798 and the unvoted legal debt margin was \$3,119,548.

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2013, are as follows:

Year	Governmental Activities	
	General Obligation	
	Bonds	
	Principal	Interest
2014	\$70,000	\$50,200
2015	70,000	47,050
2016	70,000	43,900
2017	70,000	40,750
2018	80,000	37,250
2019-2023	455,000	123,000
2024-2025	210,000	16,000
Total	\$1,025,000	\$358,150

Year	Business-Type Activities				
	OPWC Loans	General Obligation Bonds			
		Principal	Serial		Term
		Principal	Interest	Principal	Interest
2014	\$112,436	\$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	90,156	40,000	15,276	0	0
2019-2023	400,681	80,000	25,452	140,000	23,852
2024-2028	67,578	0	0	105,000	4,834
2029-2033	19,395	0	0	0	0
2034-2038	19,395	0	0	0	0
2039-2041	9,687	0	0	0	0
Total	\$1,000,932	\$260,000	\$116,733	\$245,000	\$28,686

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, 2013, members in State and local divisions contributed 10 percent of covered payroll. For 2013, member and employer contribution rates were consistent across all three plans.

The City's 2013 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contribution allocated to health care was 1 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2 percent. 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, 2013, 2012, and 2011 were \$133,117, \$99,482, and \$98,647, respectively. For 2013, 98.62 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011. Contributions to the Member-Directed plan for 2013 were \$3,446 made by the City and \$2,461 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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

Funding Policy – Employer and employee contribution rates are set by the Ohio Revised Code. From January 1, 2013, through July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013, through December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent and 24 percent, respectively, for police officers and 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. For January 1, 2013, through May 31, 2013, the portion of employer contributions used to fund pension benefits was 14.81 percent of covered payroll for police officers and 19.31 percent of covered payroll for firefighters. For June 1, 2013, through December 31, 2013, the portion of employer contributions used to fund pension benefits was 16.65 percent of covered payroll for police officers and 21.15 percent of covered payroll for firefighters. The City's contributions to OP&F for police was \$97,329 for the year ended December 31, 2013, \$53,624 for the year ended December 31, 2012, and \$66,594 for the year ended December 31, 2011. For 2013, 98.11 percent for police has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Social Security System

As of December 31, 2013, thirty-two part-time firefighters have elected to be covered by Social Security rather than OPERS or Ohio Police and Fire Pension Fund. The part-time firefighters' liability is 6.2 percent of wages paid.

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.

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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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 2013, 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. For 2013, the portion of employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1 percent. Effective January 1, 2014, the portion of employer contributions allocated to health care was raised to 2 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, 2013, 2012, and 2011 were \$10,240, \$39,793, and \$39,459, respectively. For 2013, 98.62 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan that commenced 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.

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.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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 January 1, 2013, through May 31, 2013, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll. For June 1, 2013, through December 31, 2013, the employer contribution allocated to the health care plan was 2.85 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 \$22,162 for the year ended December 31, 2013, \$28,389 for the year ended December 31, 2012, and \$35,255 for the year ended December 31, 2011. For 2013, 98.11 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

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	\$13,640
Street Maintenance	17,541
Police	6,511
Fire/EMS	2,539
Capital Improvements	558,375
Other Governmental Funds	10,985
Water	436
Sewer	189,230
Total	<u>\$799,257</u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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	Capital Improvements	Other Governmental Funds	Total
<u>Nonspendable:</u>							
Unclaimed Monies	\$2,825	\$0	\$0	\$0	\$0	\$0	\$2,825
Inventory	0	17,868	0	0	0	0	17,868
<i>Total Nonspendable</i>	<u>2,825</u>	<u>17,868</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,693</u>
<u>Restricted to:</u>							
Transportation	0	195,821	0	0	0	112,408	308,229
Public Safety	0	0	198,527	0	0	24,657	223,184
St. Helena II	0	0	0	0	0	14,168	14,168
Capital Improvements	0	0	0	0	65,848	75,891	141,739
<i>Total Restricted</i>	<u>0</u>	<u>195,821</u>	<u>198,527</u>	<u>0</u>	<u>65,848</u>	<u>227,124</u>	<u>687,320</u>
<u>Committed to:</u>							
Public Safety	0	0	0	180,668	0	0	180,668
Parks and Recreation	0	0	0	0	0	30,145	30,145
<i>Total Committed</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>180,668</u>	<u>0</u>	<u>30,145</u>	<u>210,813</u>
<u>Assigned to:</u>							
Debt Service	0	0	0	0	0	16,071	16,071
Purchases on Order	3,436	0	0	0	0	0	3,436
<i>Total Assigned</i>	<u>3,436</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,071</u>	<u>19,507</u>
Unassigned	<u>1,360,605</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,360,605</u>
Total Fund Balances	<u><u>\$1,366,866</u></u>	<u><u>\$213,689</u></u>	<u><u>\$198,527</u></u>	<u><u>\$180,668</u></u>	<u><u>\$65,848</u></u>	<u><u>\$273,340</u></u>	<u><u>\$2,298,938</u></u>

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:

	<u>Governmental Activities</u>
Asset:	
Vehicles	\$93,047
Less: Accumulated depreciation	(12,406)
Total	<u><u>\$80,641</u></u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

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

	Governmental Activities
2014	\$20,582
2015	20,582
2016	20,582
2017	10,292
Total Minimum Lease Payment	72,038
Less: Amount Representing Interest	(5,113)
Present Value of Minimum Lease Payments	<u>\$66,925</u>

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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
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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 22, 2014.

Internal Control Over Financial Reporting

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

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

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
Phone: 330-438-0617 or 800-443-9272 Fax: 330-471-0001

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 "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

September 22, 2014



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
OCTOBER 21, 2014**