



Dave Yost • Auditor of State



**CITY OF CANAL FULTON  
STARK COUNTY**

**TABLE OF CONTENTS**

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance	
Governmental Funds.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget (Non-GAAP Basis) and Actual	
General Fund .....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) and Actual	
Street Maintenance Fund.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) and Actual	
Police Fund .....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances	
Budget (Non-GAAP Basis) and Actual	
Fire/EMS Fund .....	23
Statement of Fund Net Assets	
Proprietary Funds.....	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	
Proprietary Funds.....	25
Statement of Cash Flows	
Proprietary Funds.....	26
Statement of Fiduciary Assets and Liabilities	
Agency Fund .....	28
Notes to the Basic Financial Statements.....	29
Independent Accountants' Report on Internal Control Over	
Financial Reporting and on Compliance and Other Matters	
Required by <i>Government Auditing Standards</i> .....	
	55
Schedule of Findings.....	57
Schedule of Prior Audit Findings.....	59

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street Maintenance, Police, and Fire/EMS funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As further described in Note 3, the City restated governmental activities net assets due to an overstatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2011, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

August 22, 2011

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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The discussion and analysis for the City of Canal Fulton's (the City) financial statements provide an overall review of the financial activity of the City for the twelve months ended December 31, 2010. 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 2010 are as follows:

- The City completed the construction of the High Street sanitary sewer project using funding from Ohio Public Works Commission (OPWC) loans.
- The City began the construction of the Marshallville Street sanitary sewer project using funding from Ohio Water Development Authority (OWDA) loans and Federal stimulus grants.
- The City began construction of the High Street / Erie Avenue project using funding from the OPWC, a Community Development Block Grant, and Stark County. Phase One of the High Street / Erie Avenue project consists of road widening and bike paths. Phase Two of the High Street / Erie Avenue project consists of storm water improvements to the Plum Creek culvert project.
- In spite of the nation-wide economic downturn, the City did not have to cut any jobs.

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

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2010 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.

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

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

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

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

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

Governmental Activities – Most of the City's programs and services are reported here including, general government, police, fire, 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 restricted uses for the monies within the fund.

In this report, the focus is on seven major funds, the general fund, the street maintenance fund, the police fund, the fire/EMS fund, the general capital projects fund, the water fund, and the sewer fund.

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

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities. 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.



**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2010  
Unaudited

**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 Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2010 as they compare to 2009.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009 - Restated	2010	2009	2010	2009
<b>Assets</b>						
Current and Other Assets	\$2,210,727	\$2,090,607	\$927,755	\$1,179,585	\$3,138,482	\$3,270,192
Capital Assets, Net	8,867,513	8,441,143	8,680,987	8,510,923	17,548,500	16,952,066
<i>Total Assets</i>	<u>11,078,240</u>	<u>10,531,750</u>	<u>9,608,742</u>	<u>9,690,508</u>	<u>20,686,982</u>	<u>20,222,258</u>
<b>Liabilities</b>						
Current Liabilities	486,361	483,014	83,023	99,224	569,384	582,238
Long-Term Liabilities:						
Due Within One Year	125,882	124,812	278,641	278,642	404,523	403,454
Due in More Than One Year	1,222,063	1,345,350	1,892,384	2,168,211	3,114,447	3,513,561
<i>Total Liabilities</i>	<u>1,834,306</u>	<u>1,953,176</u>	<u>2,254,048</u>	<u>2,546,077</u>	<u>4,088,354</u>	<u>4,499,253</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	7,596,631	7,045,449	6,588,454	6,140,494	14,185,085	13,185,943
Restricted for:						
Capital Projects	454,281	471,700	0	0	454,281	471,700
Debt Service	24,664	55,191	0	0	24,664	55,191
Street Repair and Maintenance	311,691	282,808	0	0	311,691	282,808
Police Protection	52,068	61,410	0	0	52,068	61,410
Other Purposes	172,576	114,031	0	0	172,576	114,031
Unrestricted	632,023	547,985	766,240	1,003,937	1,398,263	1,551,922
<i>Total Net Assets</i>	<u>\$9,243,934</u>	<u>\$8,578,574</u>	<u>\$7,354,694</u>	<u>\$7,144,431</u>	<u>\$16,598,628</u>	<u>\$15,723,005</u>

Total assets increased in 2010 as a result of an increase in capital assets related to construction in progress for the High Street projects. These projects include widening High Street and adding a bike path, as well as improvements to the culvert at Plum Creek.

Current liabilities were slightly lower in 2010. Long-term liabilities showed a more sizeable decrease due to paying down debt.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

Table 2 shows the changes in net assets for the year ended December 31, 2010 for both our governmental activities and our business-type activities.

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

	Governmental Activities		Business - Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program Revenues:						
Charges for Services and Sales	\$217,488	\$212,698	\$1,400,955	\$1,416,647	\$1,618,443	\$1,629,345
Operating Grants and Contributions	326,287	329,391	0	0	326,287	329,391
Capital Grants and Contributions	372,620	228,900	188,705	0	561,325	228,900
<b>Total Program Revenues</b>	<b>916,395</b>	<b>770,989</b>	<b>1,589,660</b>	<b>1,416,647</b>	<b>2,506,055</b>	<b>2,187,636</b>
General Revenues:						
Property Taxes	309,682	323,113	0	0	309,682	323,113
Income Taxes	1,872,433	1,975,689	0	0	1,872,433	1,975,689
Grants and Entitlements	374,840	219,672	0	0	374,840	219,672
Interest	1,653	4,960	0	0	1,653	4,960
Other	24,713	154,421	4,377	10,914	29,090	165,335
<b>Total General Revenues</b>	<b>2,583,321</b>	<b>2,677,855</b>	<b>4,377</b>	<b>10,914</b>	<b>2,587,698</b>	<b>2,688,769</b>
<b>Total Revenues</b>	<b>3,499,716</b>	<b>3,448,844</b>	<b>1,594,037</b>	<b>1,427,561</b>	<b>5,093,753</b>	<b>4,876,405</b>
<b>Program Expenses</b>						
General Government	653,963	673,710	0	0	653,963	673,710
Security of Persons and Property	1,407,459	1,449,525	0	0	1,407,459	1,449,525
Transportation	510,360	452,405	0	0	510,360	452,405
Leisure Time Activities	105,905	77,588	0	0	105,905	77,588
Community Environment	5,293	0	0	0	5,293	0
Interest and Fiscal Charges	36,376	65,877	0	0	36,376	65,877
Water	0	0	655,865	742,334	655,865	742,334
Sewer	0	0	842,909	821,204	842,909	821,204
<b>Total Program Expenses</b>	<b>2,719,356</b>	<b>2,719,105</b>	<b>1,498,774</b>	<b>1,563,538</b>	<b>4,218,130</b>	<b>4,282,643</b>
Increase/(Decrease) in Net Assets						
Before Transfers	780,360	729,739	95,263	(135,977)	875,623	593,762
Transfers	(115,000)	(220,000)	115,000	220,000	0	0
<b>Increase in Net Assets</b>	<b>665,360</b>	<b>509,739</b>	<b>210,263</b>	<b>84,023</b>	<b>875,623</b>	<b>593,762</b>
Net Assets Beginning of Year -						
Restated (See Note 3)	8,578,574	8,068,835	7,144,431	7,060,408	15,723,005	15,129,243
<b>Net Assets End of Year</b>	<b>\$9,243,934</b>	<b>\$8,578,574</b>	<b>\$7,354,694</b>	<b>\$7,144,431</b>	<b>\$16,598,628</b>	<b>\$15,723,005</b>

In 2010, total revenues exceeded total revenues in the prior year. A large part of this increase is due to the increase in operating grants and contributions related to safety and homeland security grants. Another increase involves unrestricted grants and entitlements.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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Offsetting these increases were decreases in capital grants and contributions, as well as property tax revenue. The decreases in the capital grants and contributions were due to decreased grants from the Stark County Municipal Road Fund for the paving of streets. The decrease in property tax revenue is due in part to lower assessed values on property itself, as well as a lower tax rate due to the fire and police levies expiring. Income tax revenue also decreased over the prior year due to decreased collections in both withholding and individuals.

Governmental expenses for 2010 were almost identical to those of 2009. Business-type expenses decreased in 2010 due to fewer maintenance projects in the water and sewer funds.

***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 0.50 percent. This rate was later increased to .75 percent effective January 1, 1996 and further increased to 1.00 percent effective January 1, 2001. In the November, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.10 percent effective January 1, 2005. Lastly, effective on January 1, 2007 the income tax rate moved from the previous 1.10 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 \$1,872,433.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities, representing 51.76 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a chief, lieutenant, secretary, and seven patrolmen comprising the full-time employees and two part-time patrolmen. The fire department is staffed by part-time firefighters. The remaining amount that is needed to operate the police department is subsidized by the general fund and income tax revenue.

***Business-Type Activities***

The City operates a Utility Department that consists of water and sewer services. The water utility includes water administration, a water treatment plant and water distribution.

The water utility services 2,064 customers which include residents of the City as well as outside-City customers. The City's water rates are \$2.27 per thousand gallons for inside City residential customers and \$5.68 per thousand gallons for outside City residential customers.

The City's water treatment plant treats an average of 435,000 gallons of water per day with a capacity to treat an additional 400,000 per day. The raw water is supplied by five wells throughout the City. The water treatment plant was built in 1989.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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The City provides sewer treatment services. The City owns and maintains sewer lines throughout the City. The City charges residential customers a minimum rate of \$13.13 and then \$2.68 per 1,000 gallons. For customers who pay sewer only, these residents pay a flat rate of \$21.63. As of December 31, 2010, the City had 50 of these accounts.

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 2010, revenues of \$1,594,037 were more than the total expenses for the utilities of \$1,498,774, resulting in a gain before transfers of \$95,263 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 \$3,490,638 and expenditures of \$3,249,245. The City's general fund reflected an increase in fund balance of \$90,645, and carries forward an ending fund balance of \$322,437. The street maintenance, police, and fire/ems funds had expenditures exceeding revenues and were subsidized by transfers from the general fund to create positive changes in fund balance. The general capital projects fund had a decrease of \$9,346, with an ending balance of \$305,527.

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 \$1,405,332 and an operating loss of \$66,125.

### ***Budgeting Highlights***

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the personal services and individual object level within each department. Any budgetary modifications at this level may only be made by ordinance of City Council. During 2010, four supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Intra-fund transfers within existing appropriations are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

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

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

For the general fund, original and final budgeted revenues were \$2,289,308 and \$2,361,774, respectively, and actual revenue collections were \$2,277,283. The decrease in budgeted to actual revenue was primarily due to lower income tax revenue collections.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

Also in the general fund, the original budgeted expenditures and final budgeted expenditures were \$819,934 and \$872,685, respectively. The actual expenditures were \$699,468. The main difference between actual expenditures and final appropriations was mainly due to mayor's office expenditures coming in approximately \$83,000 lower than anticipated. The City's ending unencumbered cash balance in the general fund was \$615,522 above the final budgeted amount.

**Capital Assets and Debt Administration**

*Capital Assets*

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$2,534,999	\$2,534,999	\$313,600	\$313,600	\$2,848,599	\$2,848,599
Construction in Progress	503,244	0	341,681	93,652	844,925	93,652
Buildings and Improvements	3,178,771	3,212,583	2,353,540	2,432,043	5,532,311	5,644,626
Equipment and Machinery	210,341	228,786	44,336	49,877	254,677	278,663
Vehicles	108,687	97,293	59,484	34,966	168,171	132,259
Infrastructure						
Roads	684,319	695,706	0	0	684,319	695,706
Storm Sewers	1,647,152	1,671,776	0	0	1,647,152	1,671,776
Water Lines	0	0	3,259,236	3,317,414	3,259,236	3,317,414
Sewer Lines	0	0	2,309,110	2,269,371	2,309,110	2,269,371
Totals	\$8,867,513	\$8,441,143	\$8,680,987	\$8,510,923	\$17,548,500	\$16,952,066

Total capital assets for the City at December 31, 2010, were valued at \$17,548,500, which reflects an increase of \$596,434 from the 2009 ending balance of \$16,952,066. The primary cause for this increase in capital assets is due to construction in progress for transportation, sanitary sewer, and storm water projects. These projects include the High Street / Erie Avenue road widening project, the Marshallville Street sanitary sewer project, the High Street sanitary sewer project, and the Plum Creek culvert project. See Note 11 in the financial statements for more information regarding the City's capital assets.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

**Debt**

The outstanding debt for the City as of December 31, 2010 was \$3,386,968. This balance reflects a decrease of \$404,346 from the previous year's balance of \$3,791,314, which is a decrease of 10.67 percent.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds	\$1,254,470	\$1,355,023	\$0	\$0	\$1,254,470	\$1,355,023
Water Bonds	0	0	738,658	908,997	738,658	908,997
OPWC Loans	0	0	1,367,875	1,476,433	1,367,875	1,476,433
Capital Lease	25,965	50,861	0	0	25,965	50,861
Totals	<u>\$1,280,435</u>	<u>\$1,405,884</u>	<u>\$2,106,533</u>	<u>\$2,385,430</u>	<u>\$3,386,968</u>	<u>\$3,791,314</u>

The general obligation bonds are for the downtown improvement project and fire station construction. The downtown improvement bonds will be repaid in 2011 and the fire station bonds will be repaid in 2025. Property tax revenue and general revenues will be used to repay these bonds.

The water bonds in the business-type activities include bonds for the construction and expansion of the wastewater treatment plant. This debt carries interest rates of 2.6 – 4.2 percent. User fees will pay this off over a period of 10 years. This bond will be retired in 2011. The water bonds category also includes a 20 year bond with interest rates of 3.0 – 4.5 percent. This bond will be retired in 2025 and is for the construction of a waterline to the Northwest Schools campus.

The OPWC Loans are comprised of seven separate, zero percent interest loans. The purpose of these loans are for the construction and improvement of various water and sewer projects, most notable is the Water Treatment Plant and Wellfield Expansion project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired anywhere from 2015 to 2040.

See Notes 12 and 13 in the financial statements for more information regarding the City's debt.

**Current Financial Issues**

Over the past sixteen years, income tax collections (on a cash basis) have increased from \$425,403 in 1993, to \$1,881,233 in 2010. This is largely attributed to the voter approved, four tenths of a percent increase that began in 2008. The Northwest Local School District became the City's largest employer in June 2008 through an annexation. Our income tax collections are distributed to various funds in varying percentages, which are reviewed yearly at budget time by City Council. In 2010, most income tax collections were receipted into the general fund, which allows the City to be able to support the City operations outside of the water and sewer utilities. The majority of the debt is for the City's water and sewer utilities, including bonds and zero percent interest OPWC loans, and will be repaid from user fees.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2010*  
*Unaudited*

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In 2010, the City progressed with the Marshallville Street sanitary sewer project with \$341,681 of the estimated \$377,409 cost being spent as of the end of 2010. A Federal stimulus grant, through OWDA, is reimbursing the City for half of the total cost of the project as expenses are incurred. The Marshallville Street sanitary sewer project is intended to foster and develop growth within the Route 21 Corridor. Large undeveloped parcels could eventually bring new commercial, industrial, business, and residential opportunities into the City.

**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, James P. Goffe II, City of Canal Fulton, 155 East Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at [www.cityofcanalfulton.org](http://www.cityofcanalfulton.org).

**BASIC FINANCIAL  
STATEMENTS**



**City of Canal Fulton, Ohio**

*Statement of Net Assets*

*December 31, 2010*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,073,782	\$785,560	\$1,859,342
Accounts Receivable	33,016	128,195	161,211
Intergovernmental Receivable	275,524	0	275,524
Materials and Supplies Inventory	19,192	0	19,192
Income Taxes Receivable	472,242	0	472,242
Property Taxes Receivable	336,971	0	336,971
Deferred Charges	0	14,000	14,000
Nondepreciable Capital Assets	3,038,243	655,281	3,693,524
Depreciable Capital Assets, Net	5,829,270	8,025,706	13,854,976
<i>Total Assets</i>	<u>11,078,240</u>	<u>9,608,742</u>	<u>20,686,982</u>
<b>Liabilities</b>			
Accounts Payable	39,274	11,648	50,922
Accrued Wages	41,661	20,861	62,522
Intergovernmental Payable	76,818	34,342	111,160
Deferred Revenue	310,469	0	310,469
Vacation Benefits Payable	12,714	8,283	20,997
Accrued Interest Payable	5,425	7,889	13,314
Long-Term Liabilities:			
Due Within One Year	125,882	278,641	404,523
Due In More Than One Year	1,222,063	1,892,384	3,114,447
<i>Total Liabilities</i>	<u>1,834,306</u>	<u>2,254,048</u>	<u>4,088,354</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	7,596,631	6,588,454	14,185,085
Restricted for:			
Capital Projects	454,281	0	454,281
Debt Service	24,664	0	24,664
Street Repair and Maintenance	311,691	0	311,691
Police Protection	52,068	0	52,068
Other Purposes	172,576	0	172,576
Unrestricted	632,023	766,240	1,398,263
<i>Total Net Assets</i>	<u>\$9,243,934</u>	<u>\$7,354,694</u>	<u>\$16,598,628</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2010

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$653,963	\$26,864	\$770	\$0
Security of Persons and Property	1,407,459	148,066	13,472	0
Transportation	510,360	563	312,045	358,120
Leisure Time Activities	105,905	38,695	0	14,500
Community Environment	5,293	3,300	0	0
Interest and Fiscal Charges	36,376	0	0	0
<i>Total Governmental Activities</i>	<u>2,719,356</u>	<u>217,488</u>	<u>326,287</u>	<u>372,620</u>
<b>Business-Type Activities:</b>				
Water	655,865	670,823	0	0
Sewer	842,909	730,132	0	188,705
<i>Total Business-Type Activities</i>	<u>1,498,774</u>	<u>1,400,955</u>	<u>0</u>	<u>188,705</u>
<i>Total</i>	<u>\$4,218,130</u>	<u>\$1,618,443</u>	<u>\$326,287</u>	<u>\$561,325</u>

**General Revenues**

- Property Taxes Levied for:
  - General Purposes
  - Capital Outlay
- Income Tax Levied for:
  - General Purposes
  - Law Enforcement
- Grants and Entitlements not Restricted to Specific Programs
- Interest
- Other

*Total General Revenues*

Transfers

*Total General Revenues and Transfers*

*Change in Net Assets*

*Net Assets Beginning of Year - Restated (See Note 3)*

*Net Assets End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$626,329)	\$0	(\$626,329)
(1,245,921)	0	(1,245,921)
160,368	0	160,368
(52,710)	0	(52,710)
(1,993)	0	(1,993)
(36,376)	0	(36,376)
(1,802,961)	0	(1,802,961)
0	14,958	14,958
0	75,928	75,928
0	90,886	90,886
(1,802,961)	90,886	(1,712,075)
209,245	0	209,245
100,437	0	100,437
1,716,864	0	1,716,864
155,569	0	155,569
374,840	0	374,840
1,653	0	1,653
24,713	4,377	29,090
2,583,321	4,377	2,587,698
(115,000)	115,000	0
2,468,321	119,377	2,587,698
665,360	210,263	875,623
8,578,574	7,144,431	15,723,005
<u>\$9,243,934</u>	<u>\$7,354,694</u>	<u>\$16,598,628</u>

**City of Canal Fulton, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2010*

	General	Street Maintenance	Police	Fire/ EMS	General Capital Projects
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$112,503	\$114,500	\$118,170	\$150,598	\$307,480
Accounts Receivable	3,081	0	0	29,935	0
Intergovernmental Receivable	103,747	114,266	501	0	13,205
Income Taxes Receivable	434,588	0	37,654	0	0
Property Taxes Receivable	227,683	0	0	0	109,288
Materials and Supplies Inventory	0	19,192	0	0	0
<i>Total Assets</i>	<u>\$881,602</u>	<u>\$247,958</u>	<u>\$156,325</u>	<u>\$180,533</u>	<u>\$429,973</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$12,286	\$1,915	\$5,753	\$2,972	\$15,158
Accrued Wages	5,657	3,730	21,409	10,865	0
Intergovernmental Payable	11,059	6,157	44,417	14,702	0
Deferred Revenue	530,163	95,917	20,682	23,910	109,288
<i>Total Liabilities</i>	<u>559,165</u>	<u>107,719</u>	<u>92,261</u>	<u>52,449</u>	<u>124,446</u>
<b>Fund Balances</b>					
Reserved for Encumbrances	34,758	6,810	13,956	14,291	22,664
Unreserved:					
Undesignated, Reported in:					
General Fund	287,679	0	0	0	0
Special Revenue Funds	0	133,429	50,108	113,793	0
Debt Service Funds	0	0	0	0	0
Capital Projects Funds	0	0	0	0	282,863
<i>Total Fund Balances</i>	<u>322,437</u>	<u>140,239</u>	<u>64,064</u>	<u>128,084</u>	<u>305,527</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$881,602</u>	<u>\$247,958</u>	<u>\$156,325</u>	<u>\$180,533</u>	<u>\$429,973</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2010*

Other Governmental Funds	Total Governmental Funds	<b>Total Governmental Fund Balances</b>	\$1,236,478
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,867,513
\$270,531	\$1,073,782		
0	33,016	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
43,805	275,524	Property Taxes	26,502
0	472,242	Income Taxes	259,388
0	336,971	Grants	196,227
0	19,192	Charges for Services	23,910
\$314,336	\$2,210,727	Total	506,027
		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.	(12,714)
\$1,190	\$39,274	Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(5,425)
0	41,661	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
483	76,818	General Obligation Bonds	(1,254,470)
36,536	816,496	Lease Payable	(25,965)
		Compensated Absences	(67,510)
38,209	974,249	Total	(1,347,945)
		<i>Net Assets of Governmental Activities</i>	\$9,243,934
6,862	99,341		
0	287,679		
90,389	387,719		
39,642	39,642		
139,234	422,097		
276,127	1,236,478		
\$314,336	\$2,210,727		

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2010*

	General	Street Maintenance	Police	Fire/ EMS	General Capital Projects
<b>Revenues</b>					
Property Taxes	\$208,175	\$0	\$0	\$0	\$99,924
Income Taxes	1,758,266	0	154,905	0	0
Charges for Services	3,903	0	0	108,566	0
Fines, Licenses and Permits	25,773	0	25,747	0	3,300
Intergovernmental	291,376	583,549	5,780	5,794	62,813
Interest	1,637	8	0	0	0
Contributions and Donations	770	0	0	0	0
Other	14,588	5,248	269	4,500	0
<i>Total Revenues</i>	<u>2,304,488</u>	<u>588,805</u>	<u>186,701</u>	<u>118,860</u>	<u>166,037</u>
<b>Expenditures</b>					
Current:					
General Government	599,550	0	0	0	0
Security of Persons and Property	0	0	872,310	417,213	0
Transportation	12,562	597,697	0	0	0
Community Environment	0	0	0	0	0
Leisure Time Activities	50,195	0	0	0	0
Capital Outlay	0	0	0	0	381,258
Debt Service:					
Principal Retirement	0	0	0	0	84,896
Interest and Fiscal Charges	0	0	0	0	34,229
<i>Total Expenditures</i>	<u>662,307</u>	<u>597,697</u>	<u>872,310</u>	<u>417,213</u>	<u>500,383</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,642,181</u>	<u>(8,892)</u>	<u>(685,609)</u>	<u>(298,353)</u>	<u>(334,346)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers In	0	50,000	700,000	350,000	325,000
Transfers Out	(1,551,536)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,551,536)</u>	<u>50,000</u>	<u>700,000</u>	<u>350,000</u>	<u>325,000</u>
<i>Net Change in Fund Balances</i>	90,645	41,108	14,391	51,647	(9,346)
<i>Fund Balances Beginning of Year</i>	<u>231,792</u>	<u>99,131</u>	<u>49,673</u>	<u>76,437</u>	<u>314,873</u>
<i>Fund Balances End of Year</i>	<u>\$322,437</u>	<u>\$140,239</u>	<u>\$64,064</u>	<u>\$128,084</u>	<u>\$305,527</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, 2010*

Other Governmental Funds	Total Governmental Funds		
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$126,393</b>
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$0	\$308,099	Governmental funds report capital outlay as an expenditure.	
0	1,913,171	However, in the statement of activities, the cost of those	
36,446	148,915	assets is allocated over their estimated useful lives as	
1,288	56,108	depreciation expense. This is the amount by which capital	
87,897	1,037,209	outlay exceeded depreciation in the current period.	
8	1,653	Capital Asset Additions	710,433
0	770	Current Year Depreciation	<u>(284,063)</u>
108	24,713		
<u>125,747</u>	<u>3,490,638</u>	Total	426,370
		Revenues in the statement of activities that do not provide	
		current financial resources are not reported as revenues	
		in the funds.	
0	599,550	Property Taxes	1,583
9,382	1,298,905	Income Taxes	(40,738)
96,152	706,411	Grants	21,268
5,293	5,293	Charges for Services	<u>12,465</u>
41,986	92,181		
3,293	384,551	Total	(5,422)
39,916	124,812	Repayment of long-term obligations is an expenditure in the	
3,313	37,542	governmental funds, but the repayment reduces	
<u>199,335</u>	<u>3,249,245</u>	long-term liabilities in the statement of net assets.	124,812
		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.	
		Accrued Interest	529
		Amortization of Premium on Bonds	<u>637</u>
(73,588)	241,393	Total	1,166
11,536	1,436,536	Some expenses reported in the statement of activities,	
0	(1,551,536)	do not require the use of current financial resources	
<u>11,536</u>	<u>(115,000)</u>	and therefore are not reported as expenditures	
		in governmental funds.	
(62,052)	126,393	Compensated Absences	(3,232)
338,179	1,110,085	Vacation Benefits Payable	<u>(4,727)</u>
<u>\$276,127</u>	<u>\$1,236,478</u>	Total	<u>(7,959)</u>
		<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$665,360</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, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$203,939	\$210,394	\$208,175	(\$2,219)
Income Taxes	1,806,211	1,863,385	1,731,233	(132,152)
Charges for Services	2,937	3,030	3,903	873
Fines, Licenses and Permits	34,166	35,247	26,195	(9,052)
Intergovernmental	227,292	234,486	290,797	56,311
Interest	4,799	4,950	1,637	(3,313)
Contributions and Donations	489	505	755	250
Other	9,475	9,777	14,588	4,811
<i>Total Revenues</i>	<u>2,289,308</u>	<u>2,361,774</u>	<u>2,277,283</u>	<u>(84,491)</u>
<b>Expenditures</b>				
Current:				
General Government	748,159	799,159	635,779	163,380
Transportation	16,000	16,000	12,562	3,438
Leisure Time Activities	55,775	57,526	51,127	6,399
<i>Total Expenditures</i>	<u>819,934</u>	<u>872,685</u>	<u>699,468</u>	<u>173,217</u>
<i>Excess of Revenues Over Expenditures</i>	1,469,374	1,489,089	1,577,815	88,726
<b>Other Financing Uses</b>				
Transfers Out	(1,784,680)	(2,078,332)	(1,551,536)	526,796
<i>Net Change in Fund Balance</i>	(315,306)	(589,243)	26,279	615,522
<i>Fund Balance Beginning of Year</i>	15,125	15,125	15,125	0
Prior Year Encumbrances Appropriated	32,968	32,968	32,968	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$267,213)</u>	<u>(\$541,150)</u>	<u>\$74,372</u>	<u>\$615,522</u>

See accompanying notes to the basic financial statements



**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*Street Maintenance Fund*  
*For the Year Ended December 31, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Intergovernmental	\$231,512	\$226,741	\$584,853	\$358,112
Interest	0	0	8	8
Other	4,500	5,358	5,358	0
<i>Total Revenues</i>	236,012	232,099	590,219	358,120
<b>Expenditures</b>				
Current:				
Transportation	296,476	654,596	610,636	43,960
<i>Excess of Revenues Under Expenditures</i>	(60,464)	(422,497)	(20,417)	402,080
<b>Other Financing Sources</b>				
Transfers In	41,988	50,000	50,000	0
<i>Net Change in Fund Balance</i>	(18,476)	(372,497)	29,583	402,080
<i>Fund Balance Beginning of Year</i>	73,833	73,833	73,833	0
Prior Year Encumbrances Appropriated	6,476	6,476	6,476	0
<i>Fund Balance End of Year</i>	<u>\$61,833</u>	<u>(\$292,188)</u>	<u>\$109,892</u>	<u>\$402,080</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, 2010*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Income Taxes	\$0	\$0	\$150,000	\$150,000
Fines, Licenses and Permits	24,826	22,534	25,818	3,284
Intergovernmental	5,427	4,926	5,794	868
Contributions and Donations	187	170	0	(170)
Other	4,684	4,251	269	(3,982)
<i>Total Revenues</i>	35,124	31,881	181,881	150,000
<b>Expenditures</b>				
Current:				
Security of Persons and Property	943,911	947,911	879,342	68,569
<i>Excess of Revenues Under Expenditures</i>	(908,787)	(916,030)	(697,461)	218,569
<b>Other Financing Sources</b>				
Transfers In	889,826	850,000	700,000	(150,000)
<i>Net Change in Fund Balance</i>	(18,961)	(66,030)	2,539	68,569
<i>Fund Balance Beginning of Year</i>	100,972	100,972	100,972	0
Prior Year Encumbrances Appropriated	5,496	5,496	5,496	0
<i>Fund Balance End of Year</i>	<u>\$87,507</u>	<u>\$40,438</u>	<u>\$109,007</u>	<u>\$68,569</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, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Charges for Services	\$101,326	\$109,087	\$109,087	\$0
Intergovernmental	5,803	5,794	5,794	0
Contributions and Donations	93	0	0	0
Other	4,179	4,500	4,500	0
<i>Total Revenues</i>	111,401	119,381	119,381	0
<b>Expenditures</b>				
Current:				
Security of Persons and Property	491,358	491,358	443,728	47,630
<i>Excess of Revenues Under Expenditures</i>	(379,957)	(371,977)	(324,347)	47,630
<b>Other Financing Sources</b>				
Transfers In	325,099	350,000	350,000	0
<i>Net Change in Fund Balance</i>	(54,858)	(21,977)	25,653	47,630
<i>Fund Balance Beginning of Year</i>	98,752	98,752	98,752	0
Prior Year Encumbrances Appropriated	10,694	10,694	10,694	0
<i>Fund Balance End of Year</i>	<u>\$54,588</u>	<u>\$87,469</u>	<u>\$135,099</u>	<u>\$47,630</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**

*Statement of Fund Net Assets*

*Proprietary Funds*

*December 31, 2010*

	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$186,993	\$598,567	\$785,560
Accounts Receivable	65,581	62,614	128,195
<i>Total Current Assets</i>	<u>252,574</u>	<u>661,181</u>	<u>913,755</u>
<i>Noncurrent Assets:</i>			
Deferred Charges	14,000	0	14,000
Nondepreciable Capital Assets	85,700	569,581	655,281
Depreciable Capital Assets, Net	4,186,415	3,839,291	8,025,706
<i>Total Noncurrent Assets</i>	<u>4,286,115</u>	<u>4,408,872</u>	<u>8,694,987</u>
<i>Total Assets</i>	<u>4,538,689</u>	<u>5,070,053</u>	<u>9,608,742</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	3,805	7,843	11,648
Accrued Wages	11,463	9,398	20,861
Intergovernmental Payable	16,544	17,798	34,342
Vacation Benefits Payable	4,559	3,724	8,283
Accrued Interest Payable	7,889	0	7,889
General Obligation Bonds Payable	170,083	0	170,083
OPWC Loans Payable	68,893	39,665	108,558
<i>Total Current Liabilities</i>	<u>283,236</u>	<u>78,428</u>	<u>361,664</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	34,536	29,956	64,492
Bonds Payable	568,575	0	568,575
OPWC Loans Payable	719,952	539,365	1,259,317
<i>Total Long-Term Liabilities</i>	<u>1,323,063</u>	<u>569,321</u>	<u>1,892,384</u>
<i>Total Liabilities</i>	<u>1,606,299</u>	<u>647,749</u>	<u>2,254,048</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,758,612	3,829,842	6,588,454
Unrestricted	173,778	592,462	766,240
<i>Total Net Assets</i>	<u>\$2,932,390</u>	<u>\$4,422,304</u>	<u>\$7,354,694</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2010*

	Water	Sewer	Total
<b>Operating Revenues</b>			
Charges for Services	\$670,823	\$730,132	\$1,400,955
Other	3,527	850	4,377
<i>Total Operating Revenues</i>	<u>674,350</u>	<u>730,982</u>	<u>1,405,332</u>
<b>Operating Expenses</b>			
Personal Services	314,865	267,839	582,704
Fringe Benefits	98,203	100,494	198,697
Contractual Services	46,863	230,726	277,589
Materials and Supplies	30,697	93,229	123,926
Depreciation	136,228	150,621	286,849
Other	1,692	0	1,692
<i>Total Operating Expenses</i>	<u>628,548</u>	<u>842,909</u>	<u>1,471,457</u>
<i>Operating Income (Loss)</i>	<u>45,802</u>	<u>(111,927)</u>	<u>(66,125)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Federal and State Subsidies	0	188,705	188,705
Interest and Fiscal Charges	(27,317)	0	(27,317)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(27,317)</u>	<u>188,705</u>	<u>161,388</u>
<i>Income before Transfers</i>	18,485	76,778	95,263
Transfers In	115,000	0	115,000
<i>Change in Net Assets</i>	133,485	76,778	210,263
<i>Net Assets Beginning of Year</i>	<u>2,798,905</u>	<u>4,345,526</u>	<u>7,144,431</u>
<i>Net Assets End of Year</i>	<u>\$2,932,390</u>	<u>\$4,422,304</u>	<u>\$7,354,694</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, 2010

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$667,934	\$728,305	\$1,396,239
Other Cash Receipts	4,442	850	5,292
Cash Payments to Employees for Services	(406,084)	(361,376)	(767,460)
Cash Payments for Goods and Services	(80,148)	(326,367)	(406,515)
Other Cash Payments	(6,977)	(5,945)	(12,922)
<i>Net Cash Provided by Operating Activities</i>	<u>179,167</u>	<u>35,467</u>	<u>214,634</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
OWDA Loans Issued	0	188,705	188,705
Principal Paid on Bonds	(170,084)	0	(170,084)
Interest Paid on Bonds	(37,415)	0	(37,415)
Principal Paid on OWDA Loans	0	(188,705)	(188,705)
Principal Paid on OPWC Loans	(68,893)	(39,665)	(108,558)
Payments for Capital Acquisitions	(80,081)	(376,832)	(456,913)
Federal and State Subsidies	0	188,705	188,705
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(356,473)</u>	<u>(227,792)</u>	<u>(584,265)</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfer In	<u>115,000</u>	<u>0</u>	<u>115,000</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(62,306)	(192,325)	(254,631)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>249,299</u>	<u>790,892</u>	<u>1,040,191</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$186,993</u>	<u>\$598,567</u>	<u>\$785,560</u>

(continued)

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$45,802	(\$111,927)	(\$66,125)
Adjustments:			
Depreciation	136,228	150,621	286,849
Increase in Accounts Receivable	(1,974)	(1,827)	(3,801)
Increase (Decrease) in Liabilities:			
Accounts Payable	(3,189)	(2,982)	(6,171)
Vacation Benefits Payable	1,317	634	1,951
Accrued Wages	1,365	866	2,231
Compensated Absences Payable	1,597	1,472	3,069
Intergovernmental Payable	<u>(1,979)</u>	<u>(1,390)</u>	<u>(3,369)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$179,167</u>	<u>\$35,467</u>	<u>\$214,634</u>

See accompanying notes to the basic financial statements

**City of Canal Fulton, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2010*

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**Assets**

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

Undistributed Assets	<u>\$3,591</u>
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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, 2010*

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

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

***Reporting Entity***

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

The City participates in the Stark County Regional Planning Commission, the Stark Council of Governments, and the Stark County District Board of Health as jointly governed organizations, the Local Organized Governments in Cooperation, which is defined as a joint venture, and the Northwest Stark Senior Citizens Commission, which is defined as a related organization. These organizations are presented in Notes 16, 17, and 18 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The 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 assets 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, 2010*

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

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

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. 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 liabilities is reported as fund balance. The following are the City's major governmental funds:

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

***Street Maintenance Fund*** The street maintenance fund accounts for State gasoline tax and motor vehicle registration fees designated for the expenditures related to maintaining the roads within the City.

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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**General Capital Projects Fund** The general capital projects fund accounts for property taxes and grant monies used for capital improvements in the City.

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

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. 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 assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund. The agency fund is used for performance bonds.

**Measurement Focus**

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

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Basis of Accounting***

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***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 2010 amounted to \$1,637, which includes \$1,464 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.

***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of fifteen hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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.

***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 assets 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 within the next ten years). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after seven years of accumulated service.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

***Fund Balance Reserves***

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

***Net Assets***

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets 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 Issuance Costs***

Bond issuance costs for underwriting fees and bond insurance for the Northwest Waterline general obligation bonds are being amortized using the straight-line method over the life of the bonds on the government-wide and proprietary fund statements. The straight-line method of amortization is not materially different from the effective-interest method.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

***Bond Premiums***

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

***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.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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

**Note 3 – Change in Accounting Principle and Restatement of Prior Year Net Assets**

***Change in Accounting Principle***

For 2010, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 51, "Accounting and Reporting for Intangible Assets." GASB Statement No. 51 establishes accounting and financial reporting of such assets to reduce inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the City's financial statements.

***Restatement of Prior Year Net Assets***

During 2010, it was determined that governmental activities capital assets had been overstated by \$2,378,456. The restatement reduced governmental activities net assets from \$10,957,030 to \$8,578,574 at December 31, 2009.



**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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**Note 4 – Compliance**

Contrary to Ohio Revised Code Section 5705.39, the general fund had original appropriations in excess of certified available resources by \$267,213.

Contrary to Ohio Revised Code Section 5705.39, the following funds had final appropriations in excess of certified available resources:

Fund	Estimated Revenue Plus Carryover Balances	Final Appropriations	Excess
<i>Major Funds:</i>			
General	\$2,409,867	\$2,951,017	(\$541,150)
Street Maintenance	362,408	654,596	(292,188)

Also, contrary to Ohio Revised Code Section 5705.41(B), the following fund/project had expenditures plus encumbrances in excess of final appropriations:

Fund/Object	Final Appropriations	Expenditures Plus Encumbrances	Excess
<i>Special Revenue Fund:</i>			
MVL Tax Materials and Supplies	\$70,000	\$74,926	(\$4,926)
<i>Enterprise Fund:</i>			
Sewer Fund Materials and Supplies	46,773	93,380	(46,607)

Although these budgetary violations were not corrected by year end, management has indicated that appropriations will be closely monitored to ensure no further violations.

**Note 5 – Budgetary Basis of Accounting**

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

The major differences between the budget basis and GAAP basis are as follows:

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

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

Net Change in Fund Balance  
 General and Major Special Revenue Funds

	General	Street Maintenance	Police	Fire/EMS
GAAP Basis	\$90,645	\$41,108	\$14,391	\$51,647
Net Adjustment for Revenue Accruals	(27,205)	1,414	(4,820)	521
Net Adjustment for Expenditure Accruals	2,015	(6,129)	7,636	(11,016)
Encumbrances	(39,176)	(6,810)	(14,668)	(15,499)
Budget Basis	<u>\$26,279</u>	<u>\$29,583</u>	<u>\$2,539</u>	<u>\$25,653</u>

**Note 6 – Deposits and Investments**

The City has chosen to follow State Statutes which classify monies held by the City into three categories.

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

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

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

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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 (STAROhio); 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.

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.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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## **Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, the carrying amount of the City's deposits was \$1,862,933 and the bank balance was \$1,886,661. Of the bank balance \$1,797,983 was covered by Federal depository insurance and \$88,678 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institution's 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 Federal Deposit Insurance Corporation.

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

## **Note 7 – Receivables**

Receivables at December 31, 2010, 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 personal property located in the County. Property tax revenue received during 2010 for real and public utility property taxes represents collections of 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) are for 2010 taxes.

2010 real property taxes are levied after October 1, 2010 on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

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

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. 2010 public utility property taxes which became a lien on December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

Tangible personal property tax revenue received during 2010 (other than public utility property tax) represents the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. 2010 is the last year for the collection of tangible

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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personal property taxes from telephone companies; however, the City received no tangible personal property tax revenue from telephone company property. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all City operations for the year ended December 31, 2010, was \$3.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

	Assessed Value
Real Property	\$94,143,820
Public Utility Property	1,096,830
Total	<u>\$95,240,650</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Canal Fulton. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2010 and for which there is an enforceable legal claim. In the general and capital improvement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2010 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 is deferred.

***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, not to exceed one percent of taxable income, to a maximum of half the total amount assessed.

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

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***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	Amount
<b><i>Governmental Activities:</i></b>	
Gasoline Tax	\$114,266
Local Government	76,135
Homestead and Rollback	40,717
Permissive Motor Vehicle License Tax	34,818
Motor Vehicle License Tax	8,987
Miscellaneous	601
Total	\$275,524

**Note 8 – Interfund Transfers**

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer to	Transfer From General
<b><i>Major Funds:</i></b>	
Street Maintenance	\$50,000
Police	700,000
Fire/EMS	350,000
General Capital Projects	325,000
Water	115,000
<i>Total Major Funds</i>	1,540,000
 <b><i>Non-major Capital Projects Fund:</i></b>	
Downtown Improvement	11,536
Total	\$1,551,536

The transfers to the police, fire/EMS, and street maintenance special revenue funds and the water enterprise fund were to supplement the operations of those funds. The transfers to the general capital projects and downtown improvement capital projects funds were to supplement capital improvements.

**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 2010, the City contracted with The Ohio Municipal Joint Self Insurance Pool for various types of insurance. The coverage and deductible are as follows:

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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

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

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

**Note 10 – Other Employee Benefits**

***Compensated Absences***

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

Employees earn sick leave at a rate of 4.6 hours for each completed pay period of 80 hours. Sick leave accumulation is unlimited, but upon retirement, a non-union employee can be paid twenty-five percent of accumulated, unused sick leave to a maximum of 120 days and a union employee can be paid twenty-five percent of accumulated sick leave.

***Medical and Dental Insurance***

The City provides medical, dental, and vision benefits to employees through HomeTown Health, MetLife, and Vision Service Plan, respectively. The City's portion of monthly premiums for 2010 were \$967.58 for family, \$689.15 for employee and spouse, \$580.58 for employee and children, and \$320.92 for single.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

**Note 11 – Capital Assets**

Capital asset activity for the year ended December 31, 2010, was as follows:

	Restated Balance 12/31/2009	Additions	Deductions	Balance 12/31/2010
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$2,534,999	\$0	\$0	\$2,534,999
Construction in Progress	0	503,244	0	503,244
Total Capital Assets not being depreciated	<u>2,534,999</u>	<u>503,244</u>	<u>0</u>	<u>3,038,243</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,959,463	60,279	0	5,019,742
Equipment and Machinery	589,584	35,759	0	625,343
Vehicles	1,260,356	65,162	(61,429)	1,264,089
Infrastructure:				
Storm Sewers	3,579,030	10,450	0	3,589,480
Roads	898,489	35,539	0	934,028
Total Capital Assets being depreciated	<u>11,286,922</u>	<u>207,189</u>	<u>(61,429)</u>	<u>11,432,682</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,746,880)	(94,091)	0	(1,840,971)
Equipment and Machinery	(360,798)	(54,204)	0	(415,002)
Vehicles	(1,163,063)	(53,768)	61,429	(1,155,402)
Infrastructure:				
Storm Sewers	(1,907,254)	(35,074)	0	(1,942,328)
Roads	(202,783)	(46,926)	0	(249,709)
Total Accumulated Depreciation	<u>(5,380,778)</u>	<u>(284,063) *</u>	<u>61,429</u>	<u>(5,603,412)</u>
Total Capital Assets being Depreciated, net	<u>5,906,144</u>	<u>(76,874)</u>	<u>0</u>	<u>5,829,270</u>
Governmental Activities Capital Assets, Net	<u>\$8,441,143</u>	<u>\$426,370</u>	<u>\$0</u>	<u>\$8,867,513</u>

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

General Government	\$60,936
Security of Persons and Property	139,830
Transportation	63,398
Leisure Time Activities	19,899
Total Depreciation Expense	<u>\$284,063</u>



**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

	Balance 12/31/2009	Additions	Deductions	Balance 12/31/2010
<b>Business-Type Activities</b>				
Capital Assets not being depreciated:				
Land	\$313,600	\$0	\$0	\$313,600
Construction in Progress	93,652	358,498	(110,469)	341,681
Total Capital Assets not being depreciated	<u>407,252</u>	<u>358,498</u>	<u>(110,469)</u>	<u>655,281</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,313,519	23,590	0	4,337,109
Equipment and Machinery	146,555	14,313	0	160,868
Vehicles	146,258	45,752	0	192,010
Infrastructure:				
Sewer Lines	4,563,535	97,756	0	4,661,291
Water Lines	6,116,167	27,473	0	6,143,640
Total Capital Assets being depreciated	<u>15,286,034</u>	<u>208,884</u>	<u>0</u>	<u>15,494,918</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,881,476)	(102,093)	0	(1,983,569)
Equipment and Machinery	(96,678)	(19,854)	0	(116,532)
Vehicles	(111,292)	(21,234)	0	(132,526)
Infrastructure:				
Sewer Lines	(2,294,164)	(58,017)	0	(2,352,181)
Water Lines	(2,798,753)	(85,651)	0	(2,884,404)
Total Accumulated Depreciation	<u>(7,182,363)</u>	<u>(286,849)</u>	<u>0</u>	<u>(7,469,212)</u>
Total Capital Assets, being depreciated, net	<u>8,103,671</u>	<u>(77,965)</u>	<u>0</u>	<u>8,025,706</u>
Business-Type Activities Capital Assets, Net	<u>\$8,510,923</u>	<u>\$280,533</u>	<u>(\$110,469)</u>	<u>\$8,680,987</u>

**Note 12 – Long-Term Obligations**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities</b>			
Downtown Improvement Bonds - 2001	2.6%-4.2%	\$380,000	December 1, 2011
Fire Station Bonds 1 - 2006	4.25-5.0	750,000	December 1, 2025
Fire Station Bonds 2 - 2006	4.25-5.0	750,000	December 1, 2025
<b>Business-Type Activities</b>			
OPWC Canal Street Waterline Loan - 1995	0.0	123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0.0	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2003	0.0	600,595	July 1, 2024
OPWC Denshire Sanitary Sewer Loan - 2003	0.0	417,195	July 1, 2022
OPWC Solids Handling Improvement Loan - 2003	0.0	376,100	January 1, 2023
OPWC Milan Street Waterline Loan - 2006	0.0	331,649	January 1, 2026
OPWC High Street Sanitary Sewer Loan - 2009	0.0	93,652	January 1, 2040
Water Treatment Plant Bonds - 2001	2.6-4.2	810,000	December 1, 2011
Water Plant Expansion Bonds - 2001	2.6-4.2	615,000	December 1, 2011
Northwest Waterline Bonds - 2005	3.0-4.5	730,000	March 15, 2025

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

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

	Amount Outstanding 12/31/2009	Additions	Deletions	Amount Outstanding 12/31/2010	Amounts Due in One Year
<b>Governmental Activities:</b>					
<u>General Obligation Bonds</u>					
Downtown Improvement Bonds	\$79,833	\$0	\$39,916	\$39,917	\$39,917
Fire Station Bonds 1	635,000	0	30,000	605,000	30,000
Premium on Fire Station Bonds 1	7,202	0	450	6,752	0
Fire Station Bonds 2	630,000	0	30,000	600,000	30,000
Premium on Fire Station Bonds 2	2,988	0	187	2,801	0
Total General Obligation Bonds	1,355,023	0	100,553	1,254,470	99,917
Capital Lease	50,861	0	24,896	25,965	25,965
Compensated Absences	64,278	36,492	33,260	67,510	0
Total Governmental Activities	<u>\$1,470,162</u>	<u>\$36,492</u>	<u>\$158,709</u>	<u>\$1,347,945</u>	<u>\$125,882</u>
<b>Business-Type Activities:</b>					
<u>OPWC Loans</u>					
Canal Street Waterline	\$36,945	\$0	\$6,158	\$30,787	\$6,158
Market Street Waterline	96,736	0	16,123	80,613	16,123
Water Treatment Plant	450,445	0	30,030	420,415	30,030
Denshire Sanitary Sewer	271,175	0	20,860	250,315	20,860
Solids Handling Improvement	253,868	0	18,805	235,063	18,805
Milan Street Waterline	273,612	0	16,582	257,030	16,582
High Street Sanitary Sewer	93,652	0	0	93,652	0
Total OPWC Loans	<u>1,476,433</u>	<u>0</u>	<u>108,558</u>	<u>1,367,875</u>	<u>108,558</u>
<u>OWDA Loan</u>					
Marshallville Street Sanitary Sewer	0	188,705	188,705	0	0
<u>General Obligation Bonds</u>					
Water Treatment Plant Serial Bonds	170,167	0	85,084	85,083	85,083
Water Plant Expansion Serial Bonds	110,000	0	55,000	55,000	55,000
Northwest Waterline Bonds					
Serial Bonds	380,000	0	30,000	350,000	30,000
Term Bonds	245,000	0	0	245,000	0
Premium on Northwest Waterline Bond	3,830	0	255	3,575	0
Total General Obligation Bonds	908,997	0	170,339	738,658	170,083
Compensated Absences	61,423	17,731	14,662	64,492	0
Total Business-Type Activities	<u>\$2,446,853</u>	<u>\$206,436</u>	<u>\$482,264</u>	<u>\$2,171,025</u>	<u>\$278,641</u>

The downtown improvement bonds, fire station bonds 1 and 2, and the capital lease will be paid from the general capital improvement fund.

The water treatment plant bonds and the water plant expansion bonds were issued in 2001 to improve and expand the City's water treatment plant. 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 4.50 percent per year are payable on March 15 and September 15 of each year, until the principal amount is paid.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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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 38 percent of net revenues and less than 11 percent of total revenues. The total principal remaining to be paid on the loans is \$788,845. Principal paid for the current year was \$68,893, total net revenues were \$182,030, and total revenues were \$674,350.

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 2040. Annual principal payments on these loans are expected to require less than 100 percent of net revenues in future years; however, in 2010, principal payments exceeded net revenues. The total principal remaining to be paid on the loans is \$579,030. Principal paid for the current year was \$39,665, total net revenues were \$38,694, and total revenues were \$730,982.

**Redemption Provisions**

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

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

The OPWC water and sewer loans are to finance various waterline and sanitary sewer projects in the City and will be paid from the water and sewer funds. The City has entered into a contractual agreement for an OPWC High Street Sanitary Sewer loan for up to \$223,871, which the City has received \$93,652 at year end 2010. Since the loan repayment schedule has not yet been finalized, a repayment schedule is not included in the schedule of debt service requirements.

During 2010, the City was awarded a loan from OWDA (combined with American Recovery and Reinvestment Act (ARRA) grant) to finance the Marshallville Street sanitary sewer project. The total amount of the loan was \$188,705, which was fully paid off through ARRA loan forgiveness.

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

As of December 31, 2010, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,051,980 and the unvoted legal debt margin was \$3,289,948.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2010

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2010 are as follows:

		Governmental Activities			
		General Obligation			
		Bonds			
Year	Principal		Interest		
2011	\$99,917			\$59,526	
2012	60,000			55,300	
2013	60,000			52,750	
2014	70,000			50,200	
2015	70,000			47,050	
2016-2020	390,000			184,400	
2021-2025	495,000			76,500	
Total	\$1,244,917			\$525,726	

  

		Business-Type Activities			
		General Obligation Bonds			
		Serial		Term	
Year	OPWC Loans Principal	Principal	Interest	Principal	Interest
2011	\$108,558	\$170,083	\$30,621	\$0	\$0
2012	108,558	30,000	23,612	0	0
2013	108,558	30,000	22,412	0	0
2014	108,558	35,000	21,112	0	0
2015	108,553	35,000	19,712	0	0
2016-2020	431,385	190,000	75,909	0	0
2021-2025	291,753	0	0	245,000	28,686
2026-2030	8,300	0	0	0	0
Total	\$1,274,223	\$490,083	\$193,378	\$245,000	\$28,686

**Note 13 – Capital Leases Payable**

During 2007, the City entered into a lease for the acquisition of an ambulance. This lease obligation meets the criteria of a capital lease as defined by Financial Accounting Standards Board Statement Number 13, "Accounting for Leases," and has been recorded as a capital asset on the government-wide statements. Capital lease payments are reflected as debt service expenditures in the general capital projects fund on the basic financial statements. The original amount capitalized for the capital lease and the book value as of December 31, 2010, follows:

	Governmental Activities
Vehicles	\$119,563
Less: Accumulated Depreciation	(95,652)
Current Book Value	\$23,911

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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The City will make its final payment on the capital lease in 2011 for \$26,796. Of this amount, \$25,965 is the principal portion and the remaining \$831 is the interest portion.

## **Note 14 – 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 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 and 18.1 percent of covered payroll for law and public safety employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll while public safety and law enforcement members contributed 10.5 percent and 11.1 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. 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, 2010, 2009, and 2008 were \$89,505, \$94,114, and \$66,779, respectively. For 2010, 89.22 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. There were no contributions to the Member-Directed Plan for 2010 made by the City or the plan members.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police was \$58,727 for the year ended December 31, 2010, \$70,422 for the year ended December 31, 2009, and \$58,266 for the year ended December 31, 2008, respectively. For 2010, 68.28 percent for police has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

**Note 15 – 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 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, 2010*

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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 2010, state and local employers contributed at a rate of 14 percent of covered payroll, and public safety and law enforcement employers contributed at 17.87 percent. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law and public safety employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010.

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, 2010, 2009, and 2008 were \$51,026, \$68,052, and \$66,779, respectively. For 2010, 89.22 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

### ***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.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police was \$31,091 for the year ended December 31, 2010, \$37,282 for the year ended December 31, 2009, and \$30,847 for the year ended December 31, 2008. For 2010, 68.28 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

## **Note 16 – Jointly Governed Organizations**

### ***Stark County Regional Planning Commission***

The City participates in the Stark County Regional Planning Commission (Commission), which is a statutorily created political subdivision of the State. The commission is jointly governed among Stark County, and other cities, villages, and townships. Of the 48 member board, the City appoints one member. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short-term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2010, the City contributed \$606 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.



**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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***Stark Council of Governments***

The City participates in the Stark Council of Governments (the "Council") which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County and its municipalities and townships which direct the operations of the Stark County Metropolitan Narcotics Unit and the Stark County Crime Laboratory. Of the 27 members, the City has one appointed member. Each member's control over the operation of the Council is limited to its representation on the board. The board exercises total authority over the operation of the Council including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Council. The Council is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Council in 2010. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

***Stark County District Board of Health***

The City participates in the Stark County District Board of Health (the "Health District") which is a statutorily created political subdivision of the State. The Health District is jointly governed by Stark County townships, villages, the City of Canal Fulton, the City of Louisville, and the City of North Canton. Of the 7 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City contributed \$24,851 to the Health District in 2010. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

**Note 17 – 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 2010, the City made contributions of \$47,317, 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.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2010*

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**Note 18 – Related Organizations**

*Northwest Stark Senior Citizens Commission*

The eight members of the Commission are appointed by the Mayor of the City. The Commission administers its own staff and does not rely on the City to finance deficits. The City is not financially accountable for the Commission nor is the Commission financially dependent on the City. The Commission received a donation of \$6,000 from the City in 2010.

**Note 19 – Litigation**

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



# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited 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, Ohio, (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 22, 2011 wherein the City restated governmental activities net assets due to overstatement of capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-001 described in the accompanying Schedule of Findings to be a material weakness.

### **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, providing an opinion 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 22, 2011.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Finding. We did not audit the City's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of City Council, management, and others within the City. We intend it for no one other than these specified parties.

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

**Dave Yost**  
Auditor of State

August 22, 2011

**CITY OF CANAL FULTON  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Material Weakness – Capital Assets**

The following items were identified during capital assets testing:

- Land of \$133,101 and Building & Improvements of \$2,204,001 were overstated on the prior year financial statements due to the amounts being recorded twice. A restatement was made to the current year to properly report the capital assets.
- The City's Capital Asset Policy does not address the useful lives of the City's capital assets.
- No Asset Tag number or vehicle identification number was assigned to many of the City's vehicles and items of equipment.
- There were numerous items of equipment included on the asset listing for which the original cost was less than the City's capitalization threshold of \$1,500.
- Eleven out of forty-one assets tested (26.8%) were fully depreciated and still in use.
- Ten vehicles included on the City's capital asset listings could not be verified as included on the City's property insurance policy due to a lack of adequate asset description on the capital asset listings, including vehicle vin number. Eight vehicles included on the City's capital asset listings were adequately described, including vin number, however, the vehicles could not be located on the City's property insurance policy listing.
- Depreciation expense was overstated by \$6,611 due to posting depreciation expense twice for two of the City's assets - Muhlhauser Park Gazebo and Canalway Center

To improve reporting of capital assets, the City should:

- Ensure all capital assets are recorded properly and records are prepared in a manner that supports the capital assets reported on the financial statements.
- Revise the Capital Asset Policy in order to address the useful lives of the City's capital assets.
- Assign Asset Tag numbers or vehicle identification numbers to all items of equipment and vehicles. Additionally, the City should ensure all capital assets are labeled with their respective asset tag number.
- Remove assets from the capital asset listing whose original cost was less than the City's capitalization threshold of \$1,500.
- Periodically review the useful life of the City's capital assets in order to determine whether the useful life assigned to a specific capital asset is reasonable. If necessary, the City should amend the useful life of the capital asset in order to avoid capital assets being fully depreciated while the asset is still in use.
- Review their capital asset listings and ensure all assets included on those listings are still in use by the City, are adequately described and properly insured. A physical accounting of assets should be performed to ensure all City assets are included on their capital asset listings and the assets are properly insured.
- Review City asset depreciation expense calculations for accuracy.

By improving controls over the accounting for capital assets, the City may help ensure the financial statements properly reflect their capital asset amounts.

**FINDING NUMBER 2010-001 (Continued)**

**Official's Response:** The City of Canal Fulton will perform an internal audit of the capital asset listing, including an observation of assets, in order to ensure the completeness and existence of all capital assets and compliance with the City of Canal Fulton's Capital Asset Policy. Additionally, the City of Canal Fulton will review and revise the Capital Asset Policy.

**FINDING NUMBER 2010-002**

**Noncompliance**

**Ohio Rev. Code Section 5705.39** states the total appropriation from each fund shall not exceed the total estimated revenue. The following funds had appropriations that exceeded estimated resources at year-end.

General Fund: Appropriations of \$2,951,017 exceeded estimated resources of \$2,409,867 by \$541,150.

Street Maintenance Fund: Appropriations of \$654,596 exceeded estimated resources of \$362,408 by \$292,188.

In addition, appropriations of \$2,604,614 exceeded estimated resources of \$2,337,401 by \$267,213 in the General Fund at the beginning of the year.

The City should monitor its appropriations and certificate of estimated resources to ensure appropriations do not exceed the certificate of estimated resources.

**Official's Response:** During 2011, the Finance Department implemented the tracking of appropriations versus estimated resources in order to avoid future violations.

**CITY OF CANAL FULTON  
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Ohio Rev. Code Section 5705.39 – Appropriations of \$697,736 exceeded estimated resources of \$570,358 in the General Capital Projects Fund by \$127,378 at year-end.		Not corrected. See Finding 2010-002.

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# Dave Yost • Auditor of State

CITY OF CANAL FULTON

STARK COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 13, 2011