



**Auditor of State  
Betty Montgomery**

**City of Canal Fulton  
Stark County, Ohio**

**General Purpose External Financial Statements  
For the Year Ended December 31, 2005**

**Local Government Services Section**

**City of Canal Fulton**  
*General Purpose External Financial Statements*  
*For the Fiscal Year Ended December 31, 2005*  
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**Auditor of State  
Betty Montgomery**

City of Canal Fulton  
155 East Market Street  
Canal Fulton, Ohio 44614

We have compiled the accompanying basic financial statements of the City of Canal Fulton as of and for the year ended December 31, 2005, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management's Discussion and Analysis is required supplementary information that has been prepared by management. We have not compiled, reviewed nor audited this information and, accordingly assume no responsibility for it.

BETTY MONTGOMERY  
Auditor of State

Handwritten signature of Peter R. Sorem in black ink.

Peter R. Sorem  
Chief of Local Government Services

November 1, 2006

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**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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The discussion and analysis for the City of Canal Fulton's financial statements provide an overall review of the financial activity of the City for the twelve months ended December 31, 2005. The intent of this discussion is to provide a narrative that describes the City's performance as a whole. To obtain a more detailed understanding, one should also review the basic financial statements.

**Financial Highlights**

Financial highlights for 2005 are as follows:

- Total Net Assets increased \$837,383. This was the result of an increase in the Net Assets of Business-type Activities of \$1,062,296 which represents a 14.5 percent increase from 2004.
- Total Assets of Governmental Activities increased \$423,748 or 5.41 percent above the 2004 level.
- Total Assets of Business-type Activities increased \$686,738 for a 6.40 percent increase from the prior year.
- Total Liabilities of Governmental Activities increased \$648,661. This is an increase of 67.8 percent from the previous year.
- Total Outstanding Debt increased \$415,876 or 11.4 percent during 2005.

**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 2005 and how they effected the operations of the City as a whole.

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

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

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

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

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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

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

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

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

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

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

***Fund Financial Statements***

The analysis of the City's major funds begins on page 9. Fund financial reports give a detailed report of the activities within the funds. The City currently has eighteen funds, as presented in this report. These funds are in existence to provide a multitude of services to the citizens of Canal Fulton. Some funds provide for streets, police, fire and emergency medical service protection, capital improvements, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. 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 Police Fund, the Fire/EMS Fund, the Capital Improvement Fund, the Water Fund and the Sewer Fund.

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

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

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2005 as they compare to 2004.

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

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and Other Assets	\$1,817,042	\$2,503,549	\$2,125,379	\$1,489,334	\$3,942,421	\$3,992,883
Capital Assets, Net	6,430,034	5,319,779	9,298,515	9,247,822	15,728,549	14,567,601
<i>Total Assets</i>	<u>8,247,076</u>	<u>7,823,328</u>	<u>11,423,894</u>	<u>10,737,156</u>	<u>19,670,970</u>	<u>18,560,484</u>
<b>Liabilities</b>						
Current Liabilities	1,215,816	424,003	40,013	927,892	1,255,829	1,351,895
Long-Term Liabilities:						
Due Within One Year	145,529	145,529	248,703	223,447	394,232	368,976
Due in More Than One Year	243,963	387,115	2,754,321	2,267,256	2,998,284	2,654,371
<i>Total Liabilities</i>	<u>1,605,308</u>	<u>956,647</u>	<u>3,043,037</u>	<u>3,418,595</u>	<u>4,648,345</u>	<u>4,375,242</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	5,329,310	4,823,526	6,348,006	6,780,014	11,677,316	11,603,540
Restricted for:						
Capital Projects	798,084	730,438	0	0	798,084	730,438
Debt Service	28,981	0	0	0	28,981	0
Street Repair and Maintenance	223,286	304,337	0	0	223,286	304,337
Police Protection	61,381	26,065	0	0	61,381	26,065
Other Purposes	2,053	106,966	0	0	2,053	106,966
Unrestricted	198,673	875,349	2,032,851	538,547	2,231,524	1,413,896
<i>Total Net Assets</i>	<u>\$6,641,768</u>	<u>\$6,866,681</u>	<u>\$8,380,857</u>	<u>\$7,318,561</u>	<u>\$15,022,625</u>	<u>\$14,185,242</u>

Total assets increased in 2005 by \$1,110,486. This increase was the result of an increase in capital assets of \$1,160,948. The increase in capital assets is mainly due to the purchase of park land and the Northwest School waterline project.

Total liabilities increased by \$273,103 in 2005. The total liabilities of governmental activities increased by \$648,661 while the liabilities of the business-type activities decreased by \$375,558. The increase in governmental activities was due primarily to the issuance of notes. The decrease in business-type activities was due to a decrease in accounts and contracts payable and the City paying principal on the OPWC debt.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2005  
Unaudited

Table 2 shows the changes in net assets for the year ended December 31, 2005 for both our Governmental activities and our Business-Type activities.

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

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$114,461	\$112,682	\$1,213,403	\$1,342,770	\$1,327,864	\$1,455,452
Operating Grants and Contributions	207,678	332,457	0	0	207,678	332,457
Capital Grants and Contributions	448,207	47,604	1,190,645	100,000	1,638,852	147,604
<b>Total Program Revenues</b>	<b>770,346</b>	<b>492,743</b>	<b>2,404,048</b>	<b>1,442,770</b>	<b>3,174,394</b>	<b>1,935,513</b>
<b>General Revenues:</b>						
Property Taxes	354,287	317,911	0	0	354,287	317,911
Income Taxes	1,198,320	1,148,589	0	0	1,198,320	1,148,589
Grants and Entitlements	197,311	169,578	0	0	197,311	169,578
Interest	82,595	60,266	351	0	82,946	60,266
Other	33,402	58,183	5,805	936	39,207	59,119
<b>Total General Revenues</b>	<b>1,865,915</b>	<b>1,754,527</b>	<b>6,156</b>	<b>936</b>	<b>1,872,071</b>	<b>1,755,463</b>
<b>Total Revenues</b>	<b>2,636,261</b>	<b>2,247,270</b>	<b>2,410,204</b>	<b>1,443,706</b>	<b>5,046,465</b>	<b>3,690,976</b>
<b>Program Expenses</b>						
General Government	603,043	571,051	0	0	603,043	571,051
Security of Persons and Property	1,183,207	1,111,716			1,183,207	1,111,716
Transportation	410,241	448,806	0	0	410,241	448,806
Community Environment	33,593	153	0	0	33,593	153
Leisure Time Activities	609,431	17,913	0	0	609,431	17,913
Interest and Fiscal Charges	21,659	23,758	54,680	39,838	76,339	63,596
<b>Enterprise Operations:</b>						
Water	0	0	508,879	722,826	508,879	722,826
Sewer	0	0	784,349	936,256	784,349	936,256
<b>Total Program Expenses</b>	<b>2,861,174</b>	<b>2,173,397</b>	<b>1,347,908</b>	<b>1,698,920</b>	<b>4,209,082</b>	<b>3,872,317</b>
<b>Increase/(Decrease) in Net Assets</b>	<b>(224,913)</b>	<b>73,873</b>	<b>1,062,296</b>	<b>(255,214)</b>	<b>837,383</b>	<b>(181,341)</b>
<b>Net Assets Beginning of Year</b>	<b>6,866,681</b>	<b>6,792,808</b>	<b>7,318,561</b>	<b>7,573,775</b>	<b>14,185,242</b>	<b>14,366,583</b>
<b>Net Assets End of Year</b>	<b>\$6,641,768</b>	<b>\$6,866,681</b>	<b>\$8,380,857</b>	<b>\$7,318,561</b>	<b>\$15,022,625</b>	<b>\$14,185,242</b>

The large increase in capital grants and contributions is due to the Northwest School waterline project.

**Governmental Activities**

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

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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completing projects on time. Many projects such as tree trimming, mosquito spraying, as well as paving City's streets are completed through cooperation between both departments.

In 2005, the City purchased over 24 acres that is centrally located to develop a community park. This parcel is adjacent to the Police Department and will also be the site of a voter approved new fire station. The \$1.5 million fire station is expected to break ground in 2006, and will consolidate safety services and be an anchor to the new park. The city is actively searching for grants and has applied for an Ohio grant to begin development. The new park is within biking distance of the Ohio Erie Canal Towpath and will complement the Visitor Center that opened there last year. The city's commitment to our residents in maintaining and developing our safety forces and parks remains a high priority.

As we go into 2007, the Administration has made it a priority to keep costs down by seeking competitive bids on liability, workers compensation, and hospitalization insurance. The City plans to implement Ohio Workers Compensation alcohol and drug programs that will reduce premiums.

**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 Scott M. Svab, City of Canal Fulton, 155 E. Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at [www.cityofcanalfulton.org](http://www.cityofcanalfulton.org).

**City of Canal Fulton, Ohio**  
*Statement of Net Assets*  
*December 31, 2005*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$908,707	\$943,653	\$1,852,360
Accounts Receivable	15,448	119,099	134,547
Intergovernmental Receivable	272,805	1,038,775	1,311,580
Income Tax Receivable	299,306	0	299,306
Property Taxes Receivable	320,776	0	320,776
Deferred Charges	0	23,852	23,852
Nondepreciable Capital Assets	2,433,800	313,600	2,747,400
Depreciable Capital Assets, Net	3,996,234	8,984,915	12,981,149
<i>Total Assets</i>	<u>8,247,076</u>	<u>11,423,894</u>	<u>19,670,970</u>
<b>Liabilities</b>			
Accounts Payable	17,426	883	18,309
Accrued Wages	24,760	7,853	32,613
Vacation Benefits Payable	8,032	4,852	12,884
Intergovernmental Payable	95,591	17,544	113,135
Accrued Interest Payable	4,072	8,881	12,953
Deferred Revenue	315,935	0	315,935
Notes Payable	750,000	0	750,000
Long-Term Liabilities:			
Due Within One Year	145,529	248,703	394,232
Due In More Than One Year	243,963	2,754,321	2,998,284
<i>Total Liabilities</i>	<u>1,605,308</u>	<u>3,043,037</u>	<u>4,648,345</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	5,329,310	6,348,006	11,677,316
Restricted for:			
Capital Projects	798,084	0	798,084
Debt Service	28,981	0	28,981
Street Repair and Maintenance	223,286	0	223,286
Police Protection	61,381	0	61,381
St Helena II Canal Boat	2,053	0	2,053
Unrestricted	198,673	2,032,851	2,231,524
<i>Total Net Assets</i>	<u>\$6,641,768</u>	<u>\$8,380,857</u>	<u>\$15,022,625</u>

See accompanying notes to the basic financial statements  
See accountant's compilation report

**City of Canal Fulton, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2005

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$603,043	\$20,474	\$38,896	\$0
Security of Persons and Property	1,183,207	72,344	0	0
Transportation	410,241	0	168,757	0
Community Environment	33,593	0	25	0
Leisure Time Activities	609,431	21,643	0	448,207
Interest and Fiscal Charges	21,659	0	0	0
<i>Total Governmental Activities</i>	<u>2,861,174</u>	<u>114,461</u>	<u>207,678</u>	<u>448,207</u>
<b>Business-Type Activities:</b>				
Water	563,559	690,821	0	1,062,992
Sewer	784,349	522,582	0	127,653
<i>Total Business-Type Activities</i>	<u>1,347,908</u>	<u>1,213,403</u>	<u>0</u>	<u>1,190,645</u>
<i>Total</i>	<u>\$4,209,082</u>	<u>\$1,327,864</u>	<u>\$207,678</u>	<u>\$1,638,852</u>

**General Revenues**

Property Taxes Levied for:

    General Purposes

    Law Enforcement

    Fire Protection

Income Tax Levied for General Purposes

Grants and Entitlements not Restricted to Specific Programs

Interest

Other

*Total General Revenues*

Change in Net Assets

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements  
See accountant's compilation report

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$543,673)	\$0	(\$543,673)
(1,110,863)	0	(1,110,863)
(241,484)	0	(241,484)
(33,568)	0	(33,568)
(139,581)	0	(139,581)
(21,659)	0	(21,659)
(2,090,828)	0	(2,090,828)
0	1,190,254	1,190,254
0	(134,114)	(134,114)
0	1,056,140	1,056,140
(2,090,828)	1,056,140	(1,034,688)
215,671	0	215,671
69,308	0	69,308
69,308	0	69,308
1,198,320	0	1,198,320
197,311	0	197,311
82,595	351	82,946
33,402	5,805	39,207
1,865,915	6,156	1,872,071
(224,913)	1,062,296	837,383
6,866,681	7,318,561	14,185,242
<u>\$6,641,768</u>	<u>\$8,380,857</u>	<u>\$15,022,625</u>

See accompanying notes to the basic financial statements  
See accountant's compilation report

**City of Canal Fulton, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2005*

	<u>General</u>	<u>Police</u>	<u>Fire/ EMS</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
<b>Equity in Pooled Cash and</b>						
Cash Equivalents	\$361,579	\$128,443	\$922	\$183,985	\$233,778	\$908,707
Accounts Receivable	6,515	0	8,933	0	0	15,448
Interfund Receivable	31,814	0	0	0	0	31,814
Intergovernmental Receivable	100,348	5,322	3,760	68,919	94,456	272,805
Income Taxes Receivable	299,306	0	0	0	0	299,306
Property Taxes Receivable	194,370	63,203	63,203	0	0	320,776
<b>Total Assets</b>	<b>\$993,932</b>	<b>\$196,968</b>	<b>\$76,818</b>	<b>\$252,904</b>	<b>\$328,234</b>	<b>\$1,848,856</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$9,039	\$189	\$492	\$6,299	\$1,407	\$17,426
Accrued Wages	2,028	9,258	11,272	0	2,202	24,760
Vacation Benefits Payable	697	4,653	0	0	2,682	8,032
Intergovernmental Payable	6,612	38,020	46,548	0	4,411	95,591
Accrued Interest Payable	0	0	0	3,010	0	3,010
Notes Payable	0	0	0	750,000	0	750,000
Interfund Payable	0	0	0	0	31,814	31,814
Deferred Revenue	439,035	66,963	72,111	68,919	77,542	724,570
<b>Total Liabilities</b>	<b>457,411</b>	<b>119,083</b>	<b>130,423</b>	<b>828,228</b>	<b>120,058</b>	<b>1,655,203</b>
<b>Fund Balances</b>						
Reserved for Encumbrances	71,068	27,862	982	197,960	18,977	316,849
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	465,453	0	0	0	0	465,453
Special Revenue Funds	0	50,023	(54,587)	0	142,886	138,322
Debt Service Funds	0	0	0	0	(1,771)	(1,771)
Capital Projects Funds	0	0	0	(773,284)	48,084	(725,200)
<b>Total Fund Balances</b>	<b>536,521</b>	<b>77,885</b>	<b>(53,605)</b>	<b>(575,324)</b>	<b>208,176</b>	<b>193,653</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$993,932</b>	<b>\$196,968</b>	<b>\$76,818</b>	<b>\$252,904</b>	<b>\$328,234</b>	<b>\$1,848,856</b>

See accompanying notes to the basic financial statements

See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2005*

<b>Total Governmental Fund Balances</b>	<b>\$193,653</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	6,430,034
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
Property Taxes	4,841
Income Taxes	153,441
Grants	245,205
Charges for Services	<u>5,148</u>
Total	408,635
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(1,062)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(326,724)
Special Assessment Bonds	(24,000)
Compensated Absences	<u>(38,768)</u>
Total	<u>(389,492)</u>
 <i>Net Assets of Governmental Activities</i>	 <b><u><u>\$6,641,768</u></u></b>

See accompanying notes to the basic financial statements  
 See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2005*

	General	Police	Fire/ EMS	Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Property Taxes	\$215,548	\$69,274	\$69,274	\$0	\$0	\$354,096
Income Taxes	1,217,465	0	0	0	0	1,217,465
Charges for Services	7,468	0	58,302	0	0	65,770
Fines, Licenses and Permits	25,948	815	0	0	20,334	47,097
Intergovernmental	200,689	5,678	8,366	379,288	215,881	809,902
Special Assessments	0	0	0	0	3,061	3,061
Interest	82,595	0	0	0	0	82,595
Contributions and Donations	705	0	0	0	25	730
Other	17,276	3,483	5,919	6,000	724	33,402
<i>Total Revenues</i>	<u>1,767,694</u>	<u>79,250</u>	<u>141,861</u>	<u>385,288</u>	<u>240,025</u>	<u>2,614,118</u>
<b>Expenditures</b>						
Current:						
General Government	551,686	0	0	0	16,779	568,465
Security of Persons and Property	0	669,895	423,225	0	6,918	1,100,038
Transportation	7,358	0	0	0	296,639	303,997
Community Environment	0	0	0	0	33,593	33,593
Leisure Time Activities	22,844	0	0	0	0	22,844
Capital Outlay	0	0	0	1,877,356	41,100	1,918,456
Debt Service:						
Principal Retirement	0	0	0	0	145,529	145,529
Interest and Fiscal Charges	0	0	0	3,010	19,018	22,028
<i>Total Expenditures</i>	<u>581,888</u>	<u>669,895</u>	<u>423,225</u>	<u>1,880,366</u>	<u>559,576</u>	<u>4,114,950</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,185,806</u>	<u>(590,645)</u>	<u>(281,364)</u>	<u>(1,495,078)</u>	<u>(319,551)</u>	<u>(1,500,832)</u>
<b>Other Financing Sources (Uses)</b>						
Transfers In	3,471	630,275	167,000	262,500	226,671	1,289,917
Transfers Out	(1,270,561)	0	0	0	0	(1,270,561)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,267,090)</u>	<u>630,275</u>	<u>167,000</u>	<u>262,500</u>	<u>226,671</u>	<u>19,356</u>
<i>Net Change in Fund Balances</i>	<u>(81,284)</u>	<u>39,630</u>	<u>(114,364)</u>	<u>(1,232,578)</u>	<u>(92,880)</u>	<u>(1,481,476)</u>
<i>Fund Balances Beginning of Year</i>	<u>617,805</u>	<u>38,255</u>	<u>60,759</u>	<u>657,254</u>	<u>301,056</u>	<u>1,675,129</u>
<i>Fund Balances End of Year</i>	<u>\$536,521</u>	<u>\$77,885</u>	<u>(\$53,605)</u>	<u>(\$575,324)</u>	<u>\$208,176</u>	<u>\$193,653</u>

See accompanying notes to the basic financial statements  
See accountants' compilation report

**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, 2005*

**Net Change in Fund Balances - Total Governmental Funds** (\$1,481,476)

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

Governmental funds report capital outlay as an expenditure.  
However, in the statement of activities, the cost of those  
assets is allocated over their estimated useful lives as  
depreciation expense. This is the amount by which capital  
outlay exceeded depreciation in the current period.

Capital Asset Additions	1,331,869	
Current Year Depreciation	<u>(221,614)</u>	
<b>Total</b>		<b>1,110,255</b>

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

Property Taxes	191	
Income Taxes	(19,145)	
Grants	42,564	
Special Assessments	(3,061)	
Charges for Services	<u>1,594</u>	
<b>Total</b>		<b>22,143</b>

Repayment of bond principal is an expenditure in the  
governmental funds, but the repayment reduces  
long-term liabilities in the statement of net assets. 145,529

In the statement of activities, interest is accrued on  
outstanding bonds, whereas in governmental funds, an  
interest expenditure is reported when due. 369

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

Compensated Absences (2,377)

The internal service funds used by management to charge the  
the cost of insurance to individual funds is not reported in the  
entity-wide statement of activities. Governmental expenditures  
and related internal service fund revenues are eliminated.  
The change for governmental funds is reported for the year. (19,356)

*Change in Net Assets of Governmental Activities* (\$224,913)

See accompanying notes to the basic financial statements  
See accountants' compilation report

**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, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$184,000	\$184,000	\$215,548	\$31,548
Income Taxes	1,331,520	1,331,520	1,220,987	(110,533)
Charges for Services	7,000	7,000	7,468	468
Fines, Licenses and Permits	25,200	25,200	25,960	760
Intergovernmental	160,820	160,820	201,008	40,188
Interest	45,000	45,000	82,595	37,595
Contributions and Donations	0	0	705	705
Other	20,000	20,000	17,276	(2,724)
<i>Total Revenues</i>	1,773,540	1,773,540	1,771,547	(1,993)
<b>Expenditures</b>				
Current:				
General Government	597,637	597,637	598,699	(1,062)
Transportation	15,759	15,759	7,358	8,401
Leisure Time Activities	41,305	41,305	40,803	502
<i>Total Expenditures</i>	654,701	654,701	646,860	7,841
<i>Excess of Revenues Over Expenditures</i>	1,118,839	1,118,839	1,124,687	5,848
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	3,471	3,471
Transfers Out	(1,323,845)	(1,339,095)	(1,270,561)	68,534
<i>Total Other Financing Sources (Uses)</i>	(1,323,845)	(1,339,095)	(1,267,090)	72,005
<i>Net Change in Fund Balance</i>	(205,006)	(220,256)	(142,403)	77,853
<i>Fund Balance Beginning of Year</i>	431,863	431,863	431,863	0
Prior Year Encumbrances Appropriated	29,109	29,109	29,109	0
<i>Fund Balance End of Year</i>	\$255,966	\$240,716	\$318,569	\$77,853

See accompanying notes to the basic financial statements  
See accountants' compilation report

**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, 2005*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$64,700	\$64,700	\$69,274	\$4,574
Fines, Licenses and Permits	1,100	1,100	815	(285)
Intergovernmental	7,688	7,688	4,116	(3,572)
Other	0	0	3,483	3,483
<i>Total Revenues</i>	<u>73,488</u>	<u>73,488</u>	<u>77,688</u>	<u>4,200</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	<u>732,014</u>	<u>732,014</u>	<u>682,860</u>	<u>49,154</u>
<i>Excess of Revenues Under Expenditures</i>	(658,526)	(658,526)	(605,172)	53,354
<b>Other Financing Sources (Uses)</b>				
Transfers In	619,811	619,811	630,275	10,464
Transfers Out	<u>0</u>	<u>(1,349)</u>	<u>0</u>	<u>1,349</u>
<i>Total Other Financing Sources (Uses)</i>	<u>619,811</u>	<u>618,462</u>	<u>630,275</u>	<u>11,813</u>
<i>Net Change in Fund Balance</i>	(38,715)	(40,064)	25,103	65,167
<i>Fund Balance Beginning of Year</i>	69,941	69,941	69,941	0
Prior Year Encumbrances Appropriated	<u>5,537</u>	<u>5,537</u>	<u>5,537</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$36,763</u>	<u>\$35,414</u>	<u>\$100,581</u>	<u>\$65,167</u>

See accompanying notes to the basic financial statements  
See accountants' compilation report

**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, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$65,700	\$65,700	\$69,274	\$3,574
Charges for Services	75,000	75,000	56,492	(18,508)
Intergovernmental	7,800	7,800	8,366	566
Other	1,500	1,500	5,919	4,419
<i>Total Revenues</i>	150,000	150,000	140,051	(9,949)
<b>Expenditures</b>				
Current:				
Security of Persons and Property	353,256	368,256	384,127	(15,871)
<i>Excess of Revenues Under Expenditures</i>	(203,256)	(218,256)	(244,076)	(25,820)
<b>Other Financing Sources</b>				
Transfers In	135,000	135,000	167,000	32,000
<i>Net Change in Fund Balance</i>	(68,256)	(83,256)	(77,076)	6,180
<i>Fund Balance Beginning of Year</i>	72,989	72,989	72,989	0
Prior Year Encumbrances Appropriated	4,027	4,027	4,027	0
<i>Fund Balance (Deficit) End of Year</i>	<u>\$8,760</u>	<u>(\$6,240)</u>	<u>(\$60)</u>	<u>\$6,180</u>

See accompanying notes to the basic financial statements  
See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Statement of Fund Net Assets*  
*Proprietary Funds*  
*December 31, 2005*

	Business-Type Activities		
	Water	Sewer	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$365,534	\$578,119	\$943,653
<i>Receivables:</i>			
Accounts	58,844	60,255	119,099
Intergovernmental	1,038,775	0	1,038,775
<i>Total Current Assets</i>	<u>1,463,153</u>	<u>638,374</u>	<u>2,101,527</u>
<i>Non-Current Assets:</i>			
Deferred Charges	23,852	0	23,852
Nondepreciable Capital Assets	85,700	227,900	313,600
Depreciable Capital Assets, Net	4,587,659	4,397,256	8,984,915
<i>Total Non-Current Assets</i>	<u>4,697,211</u>	<u>4,625,156</u>	<u>9,322,367</u>
<i>Total Assets</i>	<u>6,160,364</u>	<u>5,263,530</u>	<u>11,423,894</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	653	230	883
Accrued Wages	4,248	3,605	7,853
Intergovernmental Payable	8,888	8,656	17,544
Vacation Benefits Payable	2,995	1,857	4,852
Accrued Interest Payable	8,881	0	8,881
Bonds Payable	156,727	0	156,727
OPWC Loans	52,311	39,665	91,976
<i>Total Current Liabilities</i>	<u>234,703</u>	<u>54,013</u>	<u>288,716</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	11,915	11,896	23,811
Bonds Payable (net of current portion)	1,391,401	0	1,391,401
OPWC Loans Payable (net of current portion)	714,904	624,205	1,339,109
<i>Total Long-Term Liabilities</i>	<u>2,118,220</u>	<u>636,101</u>	<u>2,754,321</u>
<i>Total Liabilities</i>	<u>2,352,923</u>	<u>690,114</u>	<u>3,043,037</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,386,720	3,961,286	6,348,006
Unrestricted	1,420,721	612,130	2,032,851
<i>Total Net Assets</i>	<u>\$3,807,441</u>	<u>\$4,573,416</u>	<u>\$8,380,857</u>

See accompanying notes to the basic financial statements  
See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2005*

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Operating Revenues</b>				
Charges for Services	\$690,821	\$522,582	\$1,213,403	\$0
Other	5,301	504	5,805	0
<i>Total Operating Revenues</i>	<u>696,122</u>	<u>523,086</u>	<u>1,219,208</u>	<u>0</u>
<b>Operating Expenses</b>				
Personal Services	303,986	279,853	583,839	0
Contractual Services	60,686	180,506	241,192	0
Materials and Supplies	16,862	183,012	199,874	0
Depreciation	126,019	136,639	262,658	0
Other	1,326	4,339	5,665	0
<i>Total Operating Expenses</i>	<u>508,879</u>	<u>784,349</u>	<u>1,293,228</u>	<u>0</u>
<i>Operating Income (Loss)</i>	<u>187,243</u>	<u>(261,263)</u>	<u>(74,020)</u>	<u>0</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest and Fiscal Charges	(54,680)	0	(54,680)	0
Intergovernmental Revenue	1,038,775	0	1,038,775	0
Interest	351	0	351	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>984,446</u>	<u>0</u>	<u>984,446</u>	<u>0</u>
<i>Income (Loss) before Capital Contributions and Transfers</i>	<u>1,171,689</u>	<u>(261,263)</u>	<u>910,426</u>	<u>0</u>
Capital Contributions	24,217	127,653	151,870	0
Transfers In	7,695	8,797	16,492	0
Transfers Out	0	0	0	(35,848)
<i>Change in Net Assets</i>	<u>1,203,601</u>	<u>(124,813)</u>	<u>1,078,788</u>	<u>(35,848)</u>
<i>Net Assets Beginning of Year</i>	<u>2,603,840</u>	<u>4,698,229</u>		<u>35,848</u>
<i>Net Assets End of Year</i>	<u>\$3,807,441</u>	<u>\$4,573,416</u>		<u>\$0</u>

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

Change in net assets of business-type activities (16,492)  
\$1,062,296

See accompanying notes to the basic financial statements  
See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2005

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$688,079	\$524,730	\$1,212,809	\$0
Cash Received from Transactions with Other Funds	0	0	0	0
Other Cash Receipts	5,301	504	5,805	0
Cash Payments to Employees for Services	(299,457)	(276,594)	(576,051)	0
Cash Payments for Goods and Services	(172,026)	(470,150)	(642,176)	0
Cash Payments for Claims	0	0	0	(1,061)
Other Cash Payments	(1,326)	(4,339)	(5,665)	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>220,571</u>	<u>(225,849)</u>	<u>(5,278)</u>	<u>(1,061)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Capital Contribution	24,217	127,653	151,870	0
Proceeds from Sale of Notes	730,000	0	730,000	0
Premium from Sale of Notes	5,107	0	5,107	0
Principal Paid on Notes	(700,000)	0	(700,000)	0
Principal Paid on Bonds	(131,471)	0	(131,471)	0
Interest Paid on Bonds	(72,428)	0	(72,428)	0
Principal Paid on OPWC Loans	(52,311)	(39,665)	(91,976)	0
Payments for Capital Acquisitions	(239,764)	(73,587)	(313,351)	0
<i>Net Cash Provided by (Used) in Capital and Related Financing Activities</i>	<u>(436,650)</u>	<u>14,401</u>	<u>(422,249)</u>	<u>0</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfer In	7,695	8,797	16,492	0
Transfer Out	0	0	0	(35,848)
<i>Net Cash Provided by (Used) in Noncapital Financing Activities</i>	<u>7,695</u>	<u>8,797</u>	<u>16,492</u>	<u>(35,848)</u>
<b>Cash Flows from Investing Activities</b>				
Interest on Investments	351	0	351	0
<i>Net Decrease in Cash and Cash Equivalents</i>	<u>(208,033)</u>	<u>(202,651)</u>	<u>(410,684)</u>	<u>(36,909)</u>
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>573,567</u>	<u>780,770</u>	<u>1,354,337</u>	<u>36,909</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$365,534</u>	<u>\$578,119</u>	<u>\$943,653</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

(continued)

**City of Canal Fulton, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2005

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water	Sewer	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>				
Operating Income (Loss)	\$187,243	(\$261,263)	(\$74,020)	\$0
Adjustments:				
Depreciation	126,019	136,639	262,658	0
(Increase) Decrease in Assets:				
Accounts Receivable	(2,742)	(3,991)	(6,733)	0
Intergovernmental Receivable	0	6,139	6,139	0
Increase (Decrease) in Liabilities:				
Accounts Payable	(5,274)	(17,893)	(23,167)	0
Vacation Benefits Payable	889	(382)	507	0
Accrued Wages	2	(72)	(70)	0
Compensated Absences Payable	416	500	916	0
Contracts Payable	(88,739)	(88,739)	(177,478)	0
Intergovernmental Payable	2,757	3,213	5,970	0
Claims Payable	0	0	0	(1,061)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<b>\$220,571</b>	<b>(\$225,849)</b>	<b>(\$5,278)</b>	<b>(\$1,061)</b>

See accompanying notes to the basic financial statements  
See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2005*

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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

See accountants' compilation report

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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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 four year terms. The City Manager is appointed by the Mayor.

***Reporting Entity***

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

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

The City participated in the Stark County Regional Planning Commission, the Stark Council of Governments and the Stark County District Board of Health as jointly governed organizations and the Local Organized Governments in Cooperation, which is defined as a joint venture. Additional information is included in Note 17.

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

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

***A. Basis of Presentation***

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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

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

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

**B. Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as either governmental, proprietary or fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

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

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

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**Capital Improvement Capital Projects Fund** The capital improvement fund accounts for grant monies used for capital improvements in the City.

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

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

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

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

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

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

### **C. Measurement Focus**

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

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

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

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***D. Basis of Accounting***

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 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.

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

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

During 2005, investments were limited to Federal Home Loan Bank Bonds.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2005 amounted to \$82,595 which includes \$16,160 assigned from other City funds.

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

***F. Capital Assets***

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

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

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

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

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The City's current infrastructure consists of road projects, storm sewers and water and sewer lines. For 2003, the City reported governmental activities infrastructure for the first time. The City only reports the amounts acquired after 2002. The City plans to phase in the prior year amounts for roads and bridges in future years.

***G. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

***H. Compensated Absences***

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

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

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

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

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

***J. Fund Balance Reserves***

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

***K. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors,

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grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$1,113,785 of restricted net assets, of which \$97,138 is restricted by enabling legislation.

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

***L. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water treatment, water services and self-insurance programs. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

***M. Contributions of Capital***

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

***N. Interfund Activity***

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***O. Extraordinary and Special Items***

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

***P. Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

***Q. Budgetary Process***

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has

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been established by Council at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. The Finance Director has been authorized to allocate appropriations to the department and object level within each fund.

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

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

**Note 3 – Accountability and Compliance**

*A. Accountability*

The Fire/EMS special revenue fund, the Elm Ridge Development Special Assessment debt service fund, and the Capital Improvements capital projects fund had deficit fund balances of \$53,605, \$31,814 and \$575,324, respectively. The deficit fund balances in the special revenue and debt service funds are due to the recognition of accrued liabilities. The general fund is liable for any deficit balance and provides operating transfers when cash is required, not when accruals occur. The deficit fund balance in the capital projects fund is a result of the issuance of short-term notes. The deficit will be eliminated once bonds are issued and the notes are paid.

*B. Compliance*

The City had a negative cash balance in the Elm Ridge debt service fund of \$28,058, indicating that revenues from other sources were used to pay obligations of that fund, contrary to Ohio Revised Code Section 5705.10.

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

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Fire/EMS Special Revenue Fund	\$368,256	\$384,127	\$15,871
Elm Ridge Debt Service Fund	14,340	31,119	16,779

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Contrary to Section 5705.39, Ohio Revised Code, the following funds had final appropriations in excess of estimated revenues and carryover balances:

	Estimated Revenue Plus Carryover Balances	Appropriations	Excess
<i>Special Revenue Funds:</i>			
Fire/EMS	\$362,016	\$368,256	(\$6,240)
<i>Enterprise Funds:</i>			
Water	1,222,817	1,851,986	(629,169)

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 4 - Budgetary Basis of Accounting**

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

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

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	Police	Fire/EMS
GAAP Basis	(\$81,284)	\$39,630	(\$114,364)
Net Adjustment for Revenue Accruals	3,853	(1,562)	(1,810)
Net Adjustment for Expenditure Accruals	6,096	14,897	40,080
Encumbrances	(71,068)	(27,862)	(982)
Budget Basis	(\$142,403)	\$25,103	(\$77,076)

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**Note 5 - Change in Accounting Principles**

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes new disclosure requirements for risks associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

**Note 6 – Deposits and Investments**

State statutes classify monies held by the City into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

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 \$862,333 and the bank balance was \$1,030,943. Of the bank balance \$104,208 was covered by Federal depository insurance and \$926,735 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name.

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.

**Investments**

Investments are reported at fair value. As of December 31, 2005, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Bonds	\$199,551	February 15, 2007
Federal Home Loan Bank Bonds	300,035	March 17, 2008
Federal Home Loan Bank Bonds	300,103	April 5, 2007
Federal Home Loan Bank Bonds	197,520	December 30, 2009
	<u>\$997,209</u>	

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**Interest Rate Risk** arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature in five years unless specifically matched to a specific cash flow.

**Credit Risk** is addressed by the City's investment policy by the requirements that all investments be authorized by the Ohio Revised Code. All investments of the City carry an AAA rating by Standard & Poor's.

**Concentration of Credit Risk** is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. All of the City's investments are in Federal Home Loan Bank Bonds.

#### **Note 7 - Receivables**

Receivables at December 31, 2005, consisted primarily of municipal income taxes, property and other 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.

##### **A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2005, was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

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Real Property	\$80,882,090
Tangible Personal Property	6,273,129
Public Utility Property	1,476,390
<b>Total</b>	<u><u>\$88,631,609</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Canal Fulton. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005 and for which there is an enforceable legal claim. In the general fund and the police and fire/ems special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

***B. Income Taxes***

The City levies a municipal income tax of 1.10 percent on substantially all earned income arising from employment, residency or business activities within the City. The City allows a credit of 50 percent for the income tax paid to another municipality, not to exceed one percent of taxable income, to a maximum of half the total amount assessed.

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

***C. Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	Amount
<b>Governmental Activities</b>	
Gasoline Tax	\$92,891
ODOT Grant	68,919
Local Government	68,587
Homestead and Rollback	38,721
Drug and Agency Fines	2,336
Permissive Tax	1,351
<i>Total Governmental Activities</i>	<u><u>\$272,805</u></u>
<b>Business-Type Activities</b>	
Northwest Local School District Waterline	<u><u>\$1,038,775</u></u>

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**Note 8 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

Type of Coverage	Deductible	Coverage
General Liability	\$0	\$1,000,000/\$3,000,000
Employers Liability	0	1,000,000
Employee Benefits	0	1,000,000/3,000,000
Law Enforcement Officers Liability	2,500	1,000,000/3,000,000
Public Officials Liability	1,000	1,000,000/3,000,000
Automobile	500	1,000,000
Property	1,000	9,308,420
Special Property Coverage	1,000	716,122
Electronic Equipment/Media Coverage	500	29,179
Public Employee Dishonesty	0	10,000
Boiler and Machinery	1,000	9,308,420

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

Prior to January 1, 2005 medical and dental coverage was provided on a self-insured basis through an internal service fund. Enterprise Group Planning, a third party administrator, reviewed and paid the claims. By the end of 2005 all claims had been satisfied. The City now offers medical and dental coverage through HomeTown Health (See Note 9).

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 9 – Other Employee Benefits**

**A. 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 or death, an employee can be paid twenty-five percent of accumulated, unused sick leave to a maximum of thirty days.

**B. Medical and Dental Insurance**

The City provides medical and dental benefits to employees through HomeTown Health. The City's portion of monthly premiums for 2005 were \$867.10 for family, \$623.79 for employee and spouse, \$520.26 for employee and children, and \$289.04 for single.

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**Note 10 - Capital Assets**

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/2004	Additions	Deductions	Balance 12/31/2005
<b>Governmental Activities</b>				
Capital Assets not being depreciated:				
Land	\$1,408,800	\$1,025,000	\$0	\$2,433,800
Capital Assets being depreciated:				
Buildings and Improvements	2,776,227	75,015	0	2,851,242
Equipment and Machinery	150,046	71,544	0	221,590
Vehicles	1,019,057	38,026	0	1,057,083
Infrastructure:				
Storm Sewers	3,498,772	80,258	0	3,579,030
Roads	461,396	42,026	0	503,422
Total Capital Assets being depreciated	7,905,498	306,869	0	8,212,367
Less Accumulated Depreciation:				
Buildings and Improvements	(1,312,342)	(52,688)	0	(1,365,030)
Equipment and Machinery	(82,807)	(29,629)	0	(112,436)
Vehicles	(897,502)	(69,918)	0	(967,420)
Infrastructure:				
Storm Sewers	(1,657,894)	(44,208)	0	(1,702,102)
Roads	(43,974)	(25,171)	0	(69,145)
Total Accumulated Depreciation	(3,994,519)	(221,614) *	0	(4,216,133)
Total Capital Assets being Depreciated, net	3,910,979	85,255	0	3,996,234
Governmental Activities Capital Assets, Net	\$5,319,779	\$1,110,255	\$0	\$6,430,034
<b>Business-Type Activities</b>				
Capital Assets not being depreciated:				
Land	\$313,600	\$0	\$0	\$313,600
Construction in Progress	695,818	0	(695,818)	0
Total Capital Assets not being depreciated	1,009,418	0	(695,818)	313,600
Capital Assets being depreciated:				
Buildings and Improvements	4,074,619	44,497	0	4,119,116
Equipment and Machinery	104,994	28,992	0	133,986
Vehicles	62,101	14,158	0	76,259
Infrastructure:				
Sewer Lines	4,563,535	0	0	4,563,535
Water Lines	5,091,445	921,522	0	6,012,967
Total Capital Assets being depreciated	13,896,694	1,009,169	0	14,905,863
Less Accumulated Depreciation:				
Buildings and Improvements	(1,344,912)	(116,909)	0	(1,461,821)
Equipment and Machinery	(14,613)	(11,833)	0	(26,446)
Vehicles	(39,398)	(5,183)	0	(44,581)
Infrastructure:				
Sewer Lines	(1,983,019)	(60,847)	0	(2,043,866)
Water Lines	(2,276,348)	(67,886)	0	(2,344,234)
Total Accumulated Depreciation	(5,658,290)	(262,658)	0	(5,920,948)
Total Capital Assets, being depreciated, net	8,238,404	746,511	0	8,984,915
Business-Type Activities Capital Assets, Net	\$9,247,822	\$746,511	(\$695,818)	\$9,298,515

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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\* Depreciation expense was charged to governmental activities as follows:

General Government	\$34,186
Security of Persons and Property	81,498
Transportation	105,930
Total Depreciation Expense	\$221,614

**Note 11 – Notes Payable**

A summary of the note transactions for the year ended December 31, 2005, follows:

	Outstanding 12/31/04	Issued	Retired	Outstanding 12/31/05
<b>Governmental Activities:</b>				
4.25% Bond Anticipation Note	\$0	\$750,000	\$0	\$750,000
<b>Business-Type Activities:</b>				
2.17% Water Improvement Notes	\$700,000	\$0	(\$700,000)	\$0

In 2004, the City issued \$700,000 in Water Improvement Notes to finance the improvement of the waterworks system. These notes were retired on March 15, 2005 with the proceeds of the \$730,000 water improvement bond.

In 2005, the City issued \$750,000 in Bond Anticipation Notes to purchase a piece of property to be used to expand the City's municipal complex. The notes are bond anticipation notes, are backed by the full faith and credit of the City, and mature November 29, 2006. The note liability is reflected in the fund which received the proceeds and will repay the debt.

**Note 12 - Long-Term Obligations**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities</b>			
Police Station Bonds - 2001	2.7%	\$505,000	December 1, 2006
Downtown Improvement Bonds - 2001	2.7	380,000	December 1, 2011
Street Improvement Special Assessment Bonds - 1987	6.5	233,000	December 1, 2007
<b>Business-Type Activities</b>			
OPWC Canal Street Waterline Loan - 1995	0.0	123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0.0	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2003	0.0	600,595	July 1, 2020
OPWC Denshire Sanitary Sewer Loan - 2003	0.0	417,195	July 1, 2022
OPWC Solids Handling Improvement Loan - 2003	0.0	376,100	January 1, 2023
Water Treatment Plant Bonds - 2001	2.6-4.2	810,000	December 1, 2011
Water Plant Expansion Bonds - 2001	2.6-4.2	615,000	December 1, 2011
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, 2005*

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

	Amount Outstanding 1/1/2005	Additions	Deletions	Amount Outstanding 12/31/2005	Amounts Due in One Year
<b>Governmental Activities</b>					
<u>General Obligation Bonds</u>					
Police Station Bonds	\$200,000	\$0	\$100,000	\$100,000	\$100,000
Downtown Improvement Bonds	260,253	0	33,529	226,724	33,529
Total General Obligation Bonds	460,253	0	133,529	326,724	133,529
Special Assessment Bonds with Governmental Commitment	36,000	0	12,000	24,000	12,000
Compensated Absences	36,391	4,516	2,139	38,768	0
Total Governmental Activities	<u>\$532,644</u>	<u>\$4,516</u>	<u>\$147,668</u>	<u>\$389,492</u>	<u>\$145,529</u>
<b>Business-Type Activities</b>					
<u>OPWC Loans</u>					
OPWC Canal Street Waterline Loan	64,656	0	6,158	58,498	6,158
OPWC Market Street Waterline Loan	169,290	0	16,123	153,167	16,123
OPWC Water Treatment Plant Loan	585,580	0	30,030	555,550	30,030
OPWC Denshire Sanitary Sewer Loan	365,045	0	20,860	344,185	20,860
OPWC Solids Handling Loan	338,490	0	18,805	319,685	18,805
Total OPWC Loans	<u>1,523,061</u>	<u>0</u>	<u>91,976</u>	<u>1,431,085</u>	<u>91,976</u>
Water Treatment Plant Bonds	554,747	0	71,471	483,276	71,471
Water Plant Expansion Bonds	390,000	0	60,000	330,000	60,000
Northwest Waterline Bonds	0	730,000	0	730,000	25,000
Premium on Bonds	0	5,107	255	4,852	256
Total Northwest Waterline Bonds	<u>0</u>	<u>735,107</u>	<u>255</u>	<u>734,852</u>	<u>25,256</u>
Compensated Absences	22,985	3,892	3,066	23,811	0
Total Business-Type Activities	<u>\$2,490,793</u>	<u>\$738,999</u>	<u>\$226,768</u>	<u>\$3,003,024</u>	<u>\$248,703</u>

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

The special assessment bonds were issued to construct streets in the Elm Ridge Industrial Development Park and will be paid from the Elm Ridge Development special assessment debt service fund. The special assessment bonds are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

The water treatment plant bonds and the water plant expansion bonds were issued in 2001 to improve and expand the City's water treatment plant. The bonds are paid from user fees in the water fund.

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 3.00 percent to 4.50 percent per year are payable on March 15 and September 15 of each year, until the principal amount is paid. The bonds are paid from money to be received from the School District.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

**Redemption Provisions**

**Mandatory Sinking Fund Redemption** The water improvement 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.

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

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$9,306,319 and the unvoted legal debt margin was \$4,075,085. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2005 are as follows:

Governmental Activities:

Year	Police Station Bonds		Downtown Improvement Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$100,000	\$3,450	\$33,529	\$8,820	\$12,000	\$1,560
2007	0	0	36,723	7,664	12,000	780
2008	0	0	36,723	6,323	0	0
2009	0	0	39,916	4,910	0	0
2010	0	0	39,916	3,313	0	0
2011	0	0	39,917	1,676	0	0
Total	\$100,000	\$3,450	\$226,724	\$32,706	\$24,000	\$2,340

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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Business-Type Activities:

Year	OPWC Loans Principal	Water Treatment Plant Bonds		Water Treatment Plant Expansion Bonds		Northwest Waterline Bonds	
		Principal	Interest	Principal	Interest	Principal	Interest
2006	\$91,976	\$71,471	\$18,802	\$60,000	\$12,787	\$25,000	\$29,163
2007	91,976	78,277	16,336	55,000	10,890	25,000	28,413
2008	91,976	78,277	13,479	55,000	8,883	25,000	27,663
2009	91,976	85,084	10,465	55,000	6,765	30,000	26,800
2010	91,976	85,084	7,062	55,000	4,565	30,000	25,787
2011-2015	448,735	85,083	3,574	50,000	2,310	160,000	111,585
2016-2021	348,475	0	0	0	0	190,000	75,909
2022-2025	173,995	0	0	0	0	245,000	28,686
<b>Total</b>	<b>\$1,431,085</b>	<b>\$483,276</b>	<b>\$69,718</b>	<b>\$330,000</b>	<b>\$46,200</b>	<b>\$730,000</b>	<b>\$354,006</b>

**Note 13 - Defined Benefit Pension Plans**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$83,493, \$76,368 and \$62,026 respectively; 91 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$2,449 made by the City and \$1,536 made by the plan members.

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

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2005, 2004, and 2003 were \$47,434, \$44,093 and \$39,413 respectively, equal to the required contributions for each year. The full amount has been contributed for 2004 and 2003. 69 percent has been contributed for 2005 with the remainder being reported as a liability.

**Note 14 - Postemployment Benefits**

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

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 annually for the next eight years and 4.00 percent annually after eight years.

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$34,971. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$31,286 for police. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

**Note 15 - Litigation**

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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
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**Note 16 - Interfund Transfers and Balances**

**A. Transfers**

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfer to	Transfer From		Total
	General	Self Insurance	
General	\$0	\$3,471	\$3,471
Street Maintenance	41,000	5,421	46,421
Police	619,811	10,464	630,275
Fire/EMS	167,000	0	167,000
Capital Improvement	262,500	0	262,500
Water	0	7,695	7,695
Sewer	0	8,797	8,797
Nonmajor funds	180,250	0	180,250
<b>Total</b>	<b>\$1,270,561</b>	<b>\$35,848</b>	<b>\$1,306,409</b>

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

\$41,000 was transferred from the general fund to the street maintenance fund to supplement the funds available for maintaining City streets. \$619,811 was transferred from the general fund to the police fund to supplement the funds available for police protection. \$167,000 was transferred from the general fund to the fire/EMS fund to supplement the funds available for fire fighting and emergency medical services. \$262,500 was transferred from the general fund to the capital improvement fund to supplement the funds available for capital improvements. \$180,250 was transferred from the general fund to the downtown improvement fund to retire debt. \$35,848 was transferred from the self insurance fund to various funds to eliminate the cash balance in the fund because the City is no longer self insured.

**B. Balances**

Interfund balances at December 31, 2005 consisted of an interfund payable in the Elm Ridge Special Assessment debt service fund and an interfund receivable in the General fund of \$3,756 from the prior year and \$28,058 to cover a negative cash balance.

## **Note 17 – Jointly Governed Organizations and Joint Venture**

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

The City participates in the Stark County Regional Planning Commission (Commission), which is a statutorily created political subdivision of the State. The commission is jointly governed among Stark County, and other cities, villages, and townships. Of the 48 member board, the City appoints one member. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short-term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2005, the City contributed \$506 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

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

The City participates in the Stark Council of Governments (the "Council") which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County and its municipalities and townships which direct the operations of the Stark County Metropolitan Narcotics Unit and the Stark County Crime Laboratory. Of the 27 members, the City has one appointed member. Each member's control over the operation of the Council is limited to its representation on the board. The board exercises total authority over the operation of the Council including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Council. The Council is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Council in 2005. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

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

The City participates in the Stark County District Board of Health (the "Health District") which is a statutorily created political subdivision of the State. The Health District is jointly governed by Stark County townships, villages, the City of Canal Fulton, the City of Louisville, and the City of North Canton. Of the 7 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Health District in 2005. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

### ***D. Local Organized Governments in Cooperation***

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Massillon, and Hills and Dales Village, with each participant providing one representative 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

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

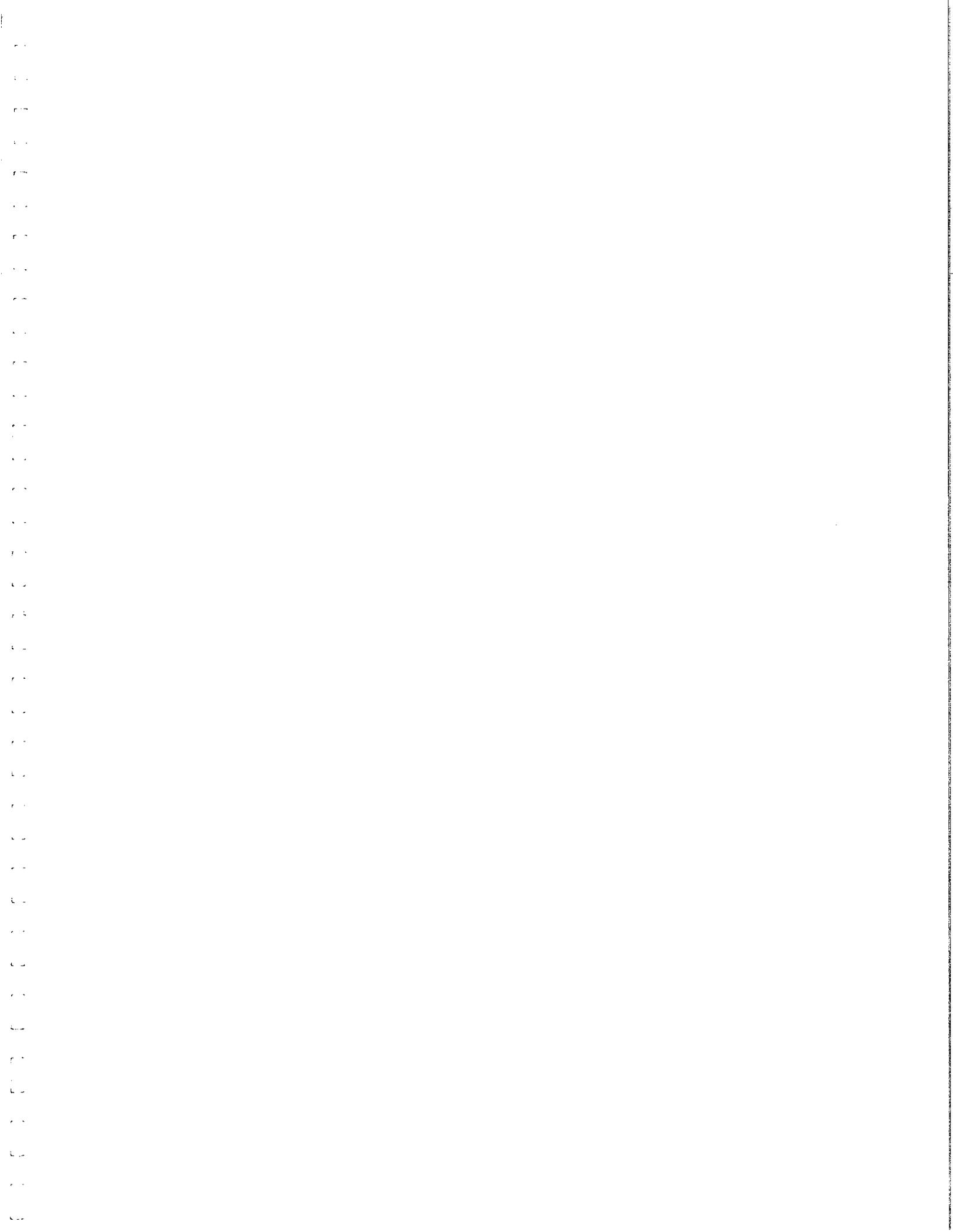
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LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2005, the City made contributions of \$55,416. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

**City of Canal Fulton, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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