



**Mary Taylor, CPA**  
Auditor of State

**CITY OF CANAL FULTON  
STARK COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Fulton, Stark County, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Fulton, Stark County, Ohio, as of December 31, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Police Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

December 19, 2008

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*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, 2007. 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 2007 are as follows:

- Total Net Assets increased \$941,813. This was primarily the result of an increase in the Net Assets of Governmental Activities of \$950,757 which represents a 13.3 percent increase from 2006.
- Total Assets of Governmental Activities increased \$741,053 or 7.2 percent above the 2006 level.
- Total Assets of Business-Type Activities decreased \$208,807 for a 1.7 percent decrease from the prior year.
- Total Liabilities of Governmental Activities decreased \$209,704. This is a decrease of 6.7 percent from the previous year.
- Total Outstanding Debt decreased \$413,832 or 7.6 percent during 2007.

**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 2007 and how they effected the operations of the City as a whole.

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

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

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

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

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

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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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 7. Fund financial reports give a detailed report of the activities within the funds. The City currently has nineteen 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 five major funds, the General Fund, the Police Fund, the Capital Improvement Fund, the Water Fund and the Sewer Fund.

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

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

**The City 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 2007 as they compare to 2006.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

**Table 1**  
**City of Canal Fulton, Ohio**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	Total
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and Other Assets	\$2,160,037	\$3,146,541	\$2,313,463	\$2,371,752	\$4,473,500	\$5,518,293
Capital Assets, Net	8,840,443	7,112,886	9,489,489	9,640,007	18,329,932	16,752,893
<b>Total Assets</b>	<b>11,000,480</b>	<b>10,259,427</b>	<b>11,802,952</b>	<b>12,011,759</b>	<b>22,803,432</b>	<b>22,271,186</b>
<b>Liabilities</b>						
Current and Other Liabilities	627,682	1,434,296	105,716	36,547	733,398	1,470,843
Long-Term Liabilities, Due Within One Year	716,935	104,775	267,567	269,073	984,502	373,848
Long-Term Liabilities, Due in More Than One Year	1,570,902	1,586,152	2,534,810	2,802,336	4,105,712	4,388,488
<b>Total Liabilities</b>	<b>2,915,519</b>	<b>3,125,223</b>	<b>2,908,093</b>	<b>3,107,956</b>	<b>5,823,612</b>	<b>6,233,179</b>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Debt	6,604,888	4,742,691	6,727,343	6,594,026	13,332,231	11,336,717
Restricted	745,885	2,111,724	0	0	745,885	2,111,724
Unrestricted	734,188	279,789	2,167,516	2,309,777	2,901,704	2,589,566
<b>Total Net Assets</b>	<b>\$8,084,961</b>	<b>\$7,134,204</b>	<b>\$8,894,859</b>	<b>\$8,903,803</b>	<b>\$16,979,820</b>	<b>\$16,038,007</b>

Total assets increased in 2007 by \$532,246. This increase was the result of higher capital assets, mainly due to the fire station.

Total liabilities decreased by \$409,567 in 2007. The total liabilities of governmental activities decreased by \$209,704 while the liabilities of the business-type activities decreased by \$199,863. The decrease in governmental activities was due primarily to paying down the property acquisition debt. The decrease in business-type activities was due to the City paying principal on debt.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

Table 2 shows the changes in net assets for the year ended December 31, 2007 for both our Governmental activities and our Business-Type activities.

**Table 2**  
**City of Canal Fulton, Ohio**  
**Changes in Net Assets**

	Governmental Activities 2007	Governmental Activities 2006	Business-Type Activities 2007	Business-Type Activities 2006	Total 2007	Total 2006
<b>Revenues</b>						
<b>Program Revenues:</b>						
Charges for Services	\$205,235	\$129,448	\$1,423,958	\$1,390,946	\$1,629,193	\$1,520,394
Operating Grants and Contributions	324,196	129,678	0	0	324,196	129,678
Capital Grants and Contributions	334,529	119,879	0	0	334,529	119,879
<b>General Revenues:</b>						
Property Taxes	493,254	335,913	0	0	493,254	335,913
Income Taxes	1,493,572	1,106,368	0	0	1,493,572	1,106,368
Grants and Entitlements Not Restricted to Specific Programs	302,301	224,832	0	0	302,301	224,832
Investment Income	168,336	113,047	255	1,632	168,591	114,679
Miscellaneous	9,895	30,374	6,442	2,189	16,337	32,563
<b>Total Revenues</b>	<b>3,331,318</b>	<b>2,189,539</b>	<b>1,430,655</b>	<b>1,394,767</b>	<b>4,761,973</b>	<b>3,584,306</b>
<b>Expenses</b>						
<b>Program Expenses:</b>						
General Government	699,134	498,718	0	0	699,134	498,718
Security of Persons and Property	1,209,811	1,287,370	0	0	1,209,811	1,287,370
Leisure Time Services	51,362	66,603	0	0	51,362	66,603
Transportation	303,953	340,700	0	0	303,953	340,700
Interest and Fiscal Charges	116,301	80,634	0	0	116,301	80,634
Sewer	0	0	712,631	722,975	712,631	722,975
Water	0	0	726,968	668,231	726,968	668,231
<b>Total Expenses</b>	<b>2,380,561</b>	<b>2,274,025</b>	<b>1,439,599</b>	<b>1,391,206</b>	<b>3,820,160</b>	<b>3,665,231</b>
Increase (Decrease) in Net Assets	950,757	(84,486)	(8,944)	3,561	941,813	(80,925)
Net Assets - Beginning	7,134,204	7,218,690	8,903,803	8,900,242	16,038,007	16,118,932
<b>Net Assets - Ending</b>	<b>\$8,084,961</b>	<b>\$7,134,204</b>	<b>\$8,894,859</b>	<b>\$8,903,803</b>	<b>\$16,979,820</b>	<b>\$16,038,007</b>

**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.

The City's income tax was established to be effective January 1, 1984 at a rate of 0.50 percent. This rate was later increased to .75 percent effective January 1, 1996 and further increased to 1.00 percent effective January 1, 2001. In the November, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.10 percent effective January 1, 2005. Effective January 1, 2003, the City allowed a 50 percent credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. On a full accrual basis, the City received income tax revenue of \$1,493,572.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 50.8 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 7 patrolmen. The fire department is staffed by part-time volunteer firefighters. The police and fire departments each receive a 1.00 mill property tax levy. The remaining amount that is needed to operate the police department is subsidized by the general fund.

***Business-Type Activities***

The City operates a Utility Department that consists of water and sewer services. The largest part of the utilities is the water utility, which includes water administration, a water treatment plant and water distribution.

The water utility services 2,052 customers which include residents of the City as well as outside-City customers. The City's water rates are \$2.10 per thousand gallons with a minimum rate of \$10.87 for inside City residential customers and \$5.25 per thousand gallons for outside City residential customers.

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

The City provides sewer treatment services. The City owns and maintains sewer lines throughout the City. The City charges residential customers a minimum rate of \$12.83 and then \$2.62 for each additional 1,000 gallons. For customers who pay sewer only, these residents pay a flat rate of \$20.66. As of December 31, 2007, the City had 43 of these accounts.

The revenues and expenses for both of these utilities are reported under the Business-Type Activities in Table 2. The revenues typically are derived primarily from charges for services. In 2007, this amount of \$1,423,958 accounted for 99.5 percent of the revenues. The total expenses for the utilities were \$1,439,599, resulting in a deficit of expenses over revenues in the amount of \$8,944 for the Business-Type Activities.

**The City's Funds**

Information about the City's governmental funds begins on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$3,122,992, excluding transfers in, bond anticipation notes issued and inception of capital lease and expenditures of \$4,229,824, excluding transfers out. The City's general fund reflected a increase in fund balance of \$160,908 and carries forward an ending fund balance of \$460,635 to meet times of lower revenues. Overall, the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

Information about the proprietary funds starts on page 19. These funds are accounted for on an accrual basis. All business-type funds had operating revenues of \$1,430,400 and an operating gain of approximately \$48,000.

***Budgeting Highlights***

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by ordinance of City Council. During 2007, two supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Intra-fund transfers within existing appropriations are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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

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

For the General fund, original and final budgeted revenues were \$520,074 and \$2,331,693, respectively and actual revenue collections were \$2,187,474. The income tax transfer was not included in the general fund revenue in the original certificate, which accounted for the large disparity in general fund revenue. The 2007 budgeted revenues were \$144,219 over the actual revenues.

Also in the General fund, the original budgeted expenditures and final budgeted expenditures were \$699,058 and \$777,324, respectively. The actual expenditures were \$726,182. The City's ending unencumbered cash balance in the general fund was \$511,923 above the final budgeted amount.

**Capital Assets and Debt Administration**

*Capital Assets*

**Table 3**  
**City of Canal Fulton, Ohio**  
**Capital Assets**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	Total
	2007	2006	2007	2006	2007	2006
Land	\$2,668,100	\$2,433,800	\$313,600	\$313,600	\$2,981,700	\$2,747,400
Construction in Progress	1,647,917	89,626	0	0	1,647,917	89,626
Buildings and Improvements	1,949,257	2,020,850	2,581,757	2,634,602	4,531,014	4,655,452
Equipment and Machinery	139,746	144,533	82,176	66,470	221,922	211,003
Vehicles	186,422	129,744	30,782	24,667	217,204	154,411
Infrastructure:						
Storm Sewers	1,796,468	1,836,734	0	0	1,796,468	1,836,734
Roads	452,533	457,599	0	0	452,533	457,599
Sewer Lines	0	0	2,841,779	2,908,209	2,841,779	2,908,209
Water Lines	0	0	3,639,395	3,692,459	3,639,395	3,692,459
<b>Total Capital Assets, Net</b>	<b>\$8,840,443</b>	<b>\$7,112,886</b>	<b>\$9,489,489</b>	<b>\$9,640,007</b>	<b>\$18,329,932</b>	<b>\$16,752,893</b>

Total Capital Assets, Net for the City of Canal Fulton for the year ended December 31, 2007 was \$18,329,932, which reflects an increase of \$1,577,039 from the 2006 ending balance of \$16,752,893. The primary cause for this increase in Capital Assets is due to current year construction in progress. See Note 11 in the financial statements for more information regarding the City's capital assets.

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

**Debt**

The outstanding debt for the City of Canal Fulton as of December 31, 2007 was \$5,019,042, excluding compensated absences. This balance reflected a decrease of \$413,832 from the previous year's balance of \$5,432,874, a decrease of 7.6 percent.

**Table 4**  
**City of Canal Fulton, Ohio**  
**Long Term Debt**  
**(As of end of each year)**

	Governmental Activities		Business-Type Activities		Total	Total
	2007	2006	2007	2006	2007	2006
Special Assessment Bonds	\$0	\$12,000	\$0	\$0	\$0	\$12,000
General Obligation Bonds	1,532,937	1,620,274	0	0	1,532,937	1,620,274
Water Bonds	0	0	1,237,869	1,396,401	1,237,869	1,396,401
OPWC Loan	0	0	1,545,618	1,654,176	1,545,618	1,654,176
Bond Anticipation Notes	605,000	750,000	0	0	605,000	750,000
Capital Lease	97,618	0	0	0	97,618	0
<b>Total Long Term Debt</b>	<b>\$2,235,555</b>	<b>\$2,382,274</b>	<b>\$2,783,487</b>	<b>\$3,050,577</b>	<b>\$5,019,042</b>	<b>\$5,432,851</b>

The special assessment bonds in the Governmental Activities were for the Elmridge Street Improvement Project. The bond was a 20 year bond that carried a 6.5 percent interest rate. The bonds were repaid over a period of 20 years, expired in 2007 and were repaid using special assessments.

The general obligation bonds are for the Downtown Improvement Project, Police Station Construction and the Fire Station Construction. These carry a 2.60-5.00 percent interest rate. The bonds will be repaid over a period of time varying from 5 to 10 years. Property tax revenue and general revenues will be used to repay these bonds.

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

The Ohio Public Works Commission Loan (OPWC) is comprised of six separate, zero percent interest loans. The purpose of these loans are for the construction and improvement of various water and sewer projects, most notable is the Water Treatment Plant and Wellfield Expansion project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired anywhere from 2015 to 2024.

The Bond Anticipation Notes were issued for the purchase of real estate to expand the city's municipal complex. The Notes matured in November 2008. They were replaced with notes that will carry a 10 percent interest rate and mature in November 2009. Property Tax Revenue will be used to repay the notes.

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

**City of Canal Fulton, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2007*  
*Unaudited*

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**Current Financial Issues**

Over the past thirteen years, income tax collections (on a cash basis) have increased from \$425,403 in 1993, to \$1,264,825 in 2006. In 2007 we collected \$1,316,456, which is an increase of \$51,631 from 2006 collections. In 2007, some major businesses closed down or relocated their offices outside the City. This data is significant because despite the anticipated decline in revenues from these withholding accounts, the personal income tax base is growing. Our income tax collections are distributed to various funds in varying percentages, which are reviewed yearly by City Council. In 2007 all income tax collections were directed to the general fund, which allows the City to be able to accomplish numerous projects throughout Canal Fulton without having to increase the debt burden of the City. At the end of 2007, the City retired the 20 year Elmridge Street Improvement Bond that funded improvements in an industrial park. The majority of the remaining debt is for the City's water and sewer utilities, including bonds and 0% interest OPWC loans that will be repaid from user fees.

The City increased its tax rate from 1.1% to 1.5% by a ballot issue in the November General Election. This increase was part of a plan by City administrators that also rolled back the 1 mill fire and 1 mill police property taxes contingent upon the issue passing. The net effect of the passage was forecast as an increase of total revenues of \$360,000. The City will continue to grow through annexation. In 2008, the Northwest Schools and a large undeveloped parcel of land were annexed into the City. The school has an annual payroll of over \$10 million with 251 full time employees. It is anticipated this acquisition will not add a significant burden to the streets and safety forces.

Growth in the housing market continues to be slow with few housing starts. A new development, Fulton Landings located on the City's north side has completed the initial infrastructure improvements and is expected to develop over 40 lots. The City Manager has encouraged annexations and expects to bring in additional land and businesses opportunities this next year.

The \$1.5 million fire station was finalized at the close of 2007. The Fire Station and the adjacent Police building will consolidate safety forces at one location and be an anchor to the park. The City's commitment to our residents in maintaining and developing our safety forces and parks remains a high priority.

In 2008, the Administration has committed to hiring an additional full time police officer and will continue to improve our streets and safety forces.

**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  
 Stark County  
 Statement of Net Assets  
 December 31, 2007

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,209,287	\$1,197,286	\$2,406,573
Accounts Receivable	18,540	176,061	194,601
Intergovernmental Receivable	211,702	918,775	1,130,477
Income Taxes Receivable	317,965	0	317,965
Property Taxes Receivable	402,543	0	402,543
<b>Noncurrent Assets:</b>			
Deferred Charges	0	21,341	21,341
Non-Depreciable Capital Assets	4,316,017	313,600	4,629,617
Depreciable Capital Assets, Net	4,524,426	9,175,889	13,700,315
<b>Total Assets</b>	<b>11,000,480</b>	<b>11,802,952</b>	<b>22,803,432</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts Payable	72,047	67,413	139,460
Accrued Wages and Benefits	21,863	9,220	31,083
Vacation Benefits Payable	11,970	1,533	13,503
Accrued Interest Payable	13,331	7,747	21,078
Intergovernmental Payable	64,133	19,803	83,936
Deferred Revenue	444,338	0	444,338
<b>Noncurrent Liabilities:</b>			
Due Within One Year	716,935	267,567	984,502
Due In More Than One Year	1,570,902	2,534,810	4,105,712
<b>Total Liabilities</b>	<b>2,915,519</b>	<b>2,908,093</b>	<b>5,823,612</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	6,604,888	6,727,343	13,332,231
<b>Restricted for:</b>			
Debt Service	62,738	0	62,738
Capital Projects	453,021	0	453,021
Other Purposes	25,100	0	25,100
Street Repair and Maintenance	188,663	0	188,663
Police Protection	14,310	0	14,310
St Helena II Canal Boat	2,053	0	2,053
Unrestricted	734,188	2,167,516	2,901,704
<b>Total Net Assets</b>	<b>\$8,084,961</b>	<b>\$8,894,859</b>	<b>\$16,979,820</b>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio  
 Stark County  
 Statement of Activities  
 For the Year Ended December 31, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General Government	\$699,134	\$108,526	\$184,046	\$35,116	(\$371,446)	\$0	(\$371,446)
Security of Persons and Property	1,209,811	65,040	16,222	65,113	(1,063,436)	0	(1,063,436)
Leisure Time Services	51,362	29,648	17,718	234,300	230,304	0	230,304
Transportation	303,953	2,021	106,210	0	(195,722)	0	(195,722)
Interest and Fiscal Charges	116,301	0	0	0	(116,301)	0	(116,301)
<i>Total Governmental Activities</i>	<u>2,380,561</u>	<u>205,235</u>	<u>324,196</u>	<u>334,529</u>	<u>(1,516,601)</u>	<u>0</u>	<u>(1,516,601)</u>
<b>Business-Type Activities</b>							
Sewer	712,631	784,151	0	0	0	71,520	71,520
Water	726,968	639,807	0	0	0	(87,161)	(87,161)
<i>Total Business-Type Activities</i>	<u>1,439,599</u>	<u>1,423,958</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(15,641)</u>	<u>(15,641)</u>
<b>Totals</b>	<u>\$3,820,160</u>	<u>\$1,629,193</u>	<u>\$324,196</u>	<u>\$334,529</u>	<u>(1,516,601)</u>	<u>(15,641)</u>	<u>(1,532,242)</u>
<b>General Revenues:</b>							
Property Taxes Levied for:							
					360,794	0	360,794
					66,230	0	66,230
					66,230	0	66,230
					1,493,572	0	1,493,572
					302,301	0	302,301
					168,336	255	168,591
					9,895	6,442	16,337
<i>Total General Revenues</i>					<u>2,467,358</u>	<u>6,697</u>	<u>2,474,055</u>
Change in Net Assets					950,757	(8,944)	941,813
<i>Net Assets Beginning of Year</i>					<u>7,134,204</u>	<u>8,903,803</u>	<u>16,038,007</u>
<i>Net Assets End of Year</i>					<u>\$8,084,961</u>	<u>\$8,894,859</u>	<u>\$16,979,820</u>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio  
 Stark County  
 Balance Sheet  
 Governmental Funds  
 December 31, 2007

	General	Police	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
<b>Current Assets:</b>					
Equity in Pooled Cash and					
Cash Equivalents	\$393,334	\$64,490	\$310,009	\$441,454	\$1,209,287
Accounts Receivable	12,723		0	5,817	18,540
Interfund Receivable	3,756	0	0	0	3,756
Intergovernmental Receivable	78,054	2,617	0	131,031	211,702
Income Taxes Receivable	317,965	0	0	0	317,965
Property Taxes Receivable	257,581	72,481	0	72,481	402,543
<b>Total Assets</b>	<b>\$1,063,413</b>	<b>\$139,588</b>	<b>\$310,009</b>	<b>\$650,783</b>	<b>\$2,163,793</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$27,197	\$5,626	\$26,601	\$12,623	\$72,047
Accrued Wages and Benefits	3,011	10,830	0	8,022	21,863
Vacation Benefits Payable	5,033	4,767	0	2,170	11,970
Intergovernmental Payable	7,737	36,841	0	19,555	64,133
Accrued Interest Payable	2,357	0	0	0	2,357
Interfund Payable	0	0	0	3,756	3,756
Deferred Revenue	557,443	74,615	0	189,951	822,009
<b>Total Liabilities</b>	<b>602,778</b>	<b>132,679</b>	<b>26,601</b>	<b>236,077</b>	<b>998,135</b>
<b>Fund Balances</b>					
<b>Reserved for:</b>					
Encumbrances	14,335	725	95,911	33,780	144,751
<b>Unreserved, Undesignated, Reported in:</b>					
General Fund	446,300	0	0	0	446,300
Special Revenue Funds	0	6,184	0	149,212	155,396
Debt Service Funds	0	0	0	62,738	62,738
Capital Projects Funds	0	0	187,497	168,976	356,473
<b>Total Fund Balances</b>	<b>460,635</b>	<b>6,909</b>	<b>283,408</b>	<b>414,706</b>	<b>1,165,658</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$1,063,413</b>	<b>\$139,588</b>	<b>\$310,009</b>	<b>\$650,783</b>	<b>\$2,163,793</b>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio  
 Stark County  
 Reconciliation of Total Governmental Fund Balances to Net Assets  
 of Governmental Activities  
 For the Year Ended December 31, 2007

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Total Governmental Fund Balances \$1,165,658

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

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.

Land	2,668,100	
Construction in Progress	1,647,917	
Buildings & Improvements (Net of Depreciation)	1,949,257	
Vehicles (Net of Depreciation)	186,422	
Equipment & Machinery (Net of Depreciation)	139,746	
Infrastructure (Net of Depreciation)	<u>2,249,001</u>	
Total		8,840,443

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.

Property Taxes	18,611	
Intergovernmental	126,299	
Income Taxes	<u>232,761</u>	
Total		377,671

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(1,521,471)	
Premium on Bonds	(11,465)	
Bond Anticipation Note	(605,000)	
Capital Lease	(97,619)	
Accrued Interest	(10,974)	
Compensated Absences	<u>(52,282)</u>	
		(2,298,811)

*Net Assets of Governmental Activities*

\$8,084,961

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio  
 Stark County  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended December 31, 2007

	General	Police	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Property Taxes	\$219,353	\$64,874	\$133,197	\$64,874	\$482,298
Income Taxes	1,260,811	0	0	0	1,260,811
Special Assessments	0	0	0	3,134	3,134
Charges for Services	5,698	0	0	67,215	72,913
Licenses and Permits	112,838	0	0	0	112,838
Fines and Forfeitures	2,459	0	0	17,025	19,484
Intergovernmental	215,395	25,127	13,108	534,747	788,377
Interest	99,437	0	58,516	9,746	167,699
Contributions and Donations	205,193	200	0	150	205,543
Other	9,355	0	0	540	9,895
<b>Total Revenues</b>	<b>2,130,539</b>	<b>90,201</b>	<b>204,821</b>	<b>697,431</b>	<b>3,122,992</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government	602,125	0	0	47	602,172
Security of Persons and Property	0	738,047	146,164	335,686	1,219,897
Leisure Time Services	56,076	0	0	0	56,076
Transportation	10,851	0	0	258,506	269,357
Capital Outlay	0	0	1,604,963	245,700	1,850,663
<b>Debt Service:</b>					
Principal Retirement	0	0	71,945	48,723	120,668
Interest and Fiscal Charges	2,357	0	100,580	8,054	110,991
<b>Total Expenditures</b>	<b>671,409</b>	<b>738,047</b>	<b>1,923,652</b>	<b>896,716</b>	<b>4,229,824</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>1,459,130</b>	<b>(647,846)</b>	<b>(1,718,831)</b>	<b>(199,285)</b>	<b>(1,106,832)</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	0	638,949	915,875	348,398	1,903,222
Bond Anticipation Notes Issued	605,000	0	0	0	605,000
Inception of Capital Lease	0	0	119,563	0	119,563
Transfers Out	(1,903,222)	0	0	0	(1,903,222)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,298,222)</b>	<b>638,949</b>	<b>1,035,438</b>	<b>348,398</b>	<b>724,563</b>
<b>Net Change in Fund Balances</b>	<b>160,908</b>	<b>(8,897)</b>	<b>(683,393)</b>	<b>149,113</b>	<b>(382,269)</b>
<b>Fund Balance (Deficit) Beginning of Year</b>	<b>299,727</b>	<b>15,806</b>	<b>966,801</b>	<b>265,593</b>	<b>1,547,927</b>
<b>Fund Balance (Deficit) End of Year</b>	<b>\$460,635</b>	<b>\$6,909</b>	<b>\$283,408</b>	<b>\$414,706</b>	<b>\$1,165,658</b>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio  
 Stark County  
 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, 2007

Net Change in Fund Balances - Total Governmental Funds (\$382,269)

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

Governmental funds report capital outlays and inception of capital leases as expenditures. 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 outlays exceeded depreciation in the current period.

Capital Outlay	1,995,672	
Inception of Capital Lease	(119,563)	
Depreciation Expense	<u>(268,115)</u>	
Total		1,607,994

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

Property Taxes	10,956	
Income Taxes	232,761	
Local Taxes	<u>(36,028)</u>	
Total		207,689

Long-term note proceeds provide current financial resources to governmental funds, but, issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments.

Bond Anticipation Notes (605,000)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General Obligation Payments	86,723	
Special Assessments Payments	12,000	
Capital Lease Payment	<u>21,945</u>	
Total		120,668

Some expenses reported in the Statement of Activities, such as compensated absences which represent contractually required pension contributions and accrued interest, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	6,348	
Accrued Interest	<u>(4,673)</u>	
Total		1,675

*Change in Net Assets of Governmental Activities* \$950,757

The notes to the financial statements are an integral part of this statement.

**City of Canal Fulton, Ohio**  
**Stark County**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget (Non-GAAP Basis) and Actual**  
**General Fund**  
**For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Over
				(Under)
<b>REVENUES:</b>				
Property Taxes	\$200,000	\$256,017	\$219,353	(\$36,664)
Income Taxes	11,000	1,576,185	1,316,456	(259,729)
Charges for Services	3,300	4,334	4,049	(285)
Licenses and Permits	22,750	48,748	101,804	53,056
Fines and Forfeitures	5,000	5,618	2,419	(3,199)
Intergovernmental	143,488	225,018	235,024	10,006
Interest	75,254	101,702	93,821	(7,881)
Contributions and Donations	34,282	86,682	205,193	118,511
Other	25,000	27,389	9,355	(18,034)
<b>Total Revenues</b>	<b>520,074</b>	<b>2,331,693</b>	<b>2,187,474</b>	<b>(144,219)</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General Government	625,590	699,401	647,243	52,158
Leisure Time Services	58,763	63,218	68,088	(4,870)
Transportation	14,705	14,705	10,851	3,854
<b>Total Expenditures</b>	<b>699,058</b>	<b>777,324</b>	<b>726,182</b>	<b>51,142</b>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	(178,984)	1,554,369	1,461,292	(93,077)
<b>OTHER FINANCING SOURCES/(USES):</b>				
Transfers In	566,609	800,000	0	(800,000)
Bond Anticipation Notes Issued	0	0	605,000	605,000
Transfers Out	(1,921,347)	(2,703,222)	(1,903,222)	800,000
<b>Total Other Financing Sources/(Uses)</b>	<b>(1,354,738)</b>	<b>(1,903,222)</b>	<b>(1,298,222)</b>	<b>605,000</b>
<b>Net Change in Fund Balance</b>	<b>(1,533,722)</b>	<b>(348,853)</b>	<b>163,070</b>	<b>511,923</b>
Fund Balance at Beginning of Year	59,520	59,520	59,520	0
Prior Year Encumbrances Appropriated	82,115	82,115	82,115	0
<b>Fund Balance (Deficit) at End of Year</b>	<b>(\$1,392,087)</b>	<b>(\$207,218)</b>	<b>\$304,705</b>	<b>\$511,923</b>

The notes to the financial statements are an integral part of this statement.

**City of Canal Fulton, Ohio**  
**Stark County**  
**Statement of Revenues, Expenditures and Changes**  
**In Fund Balance - Budget (Non-GAAP Basis) and Actual**  
**Police Fund**  
**For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Property Taxes	\$70,525	\$121,204	\$64,874	(\$56,330)
Income Taxes	0	20,591	0	(20,591)
Intergovernmental	65,967	17,500	24,644	7,144
Contributions and Donations	50	217	200	(17)
<b>Total Revenues</b>	<b>136,542</b>	<b>159,512</b>	<b>89,718</b>	<b>(69,794)</b>
<b>EXPENDITURES:</b>				
Current:				
Security of Persons and Property	723,161	753,161	745,708	7,453
<b>Deficit of Revenues (Under) Expenditures</b>	<b>(586,619)</b>	<b>(593,649)</b>	<b>(655,990)</b>	<b>(62,341)</b>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	638,949	638,949	638,949	0
<b>Total Other Financing Sources</b>	<b>638,949</b>	<b>638,949</b>	<b>638,949</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>52,330</b>	<b>45,300</b>	<b>(17,041)</b>	<b>(62,341)</b>
Fund Balance at Beginning of Year	62,449	62,449	62,449	0
Prior Year Encumbrances Appropriated	2,147	2,147	2,147	0
<b>Fund Balance at End of Year</b>	<b>\$116,926</b>	<b>\$109,896</b>	<b>\$47,555</b>	<b>(\$62,341)</b>

The notes to the financial statements are an integral part of this statement.

**City of Canal Fulton, Ohio**  
**Stark County**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**December 31, 2007**

	Business-Type Activities Enterprise Funds		
	Sewer	Water	Totals
<b>Assets</b>			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$785,550	\$411,736	\$1,197,286
Receivables:			
Accounts	123,607	52,454	176,061
Intergovernmental	0	918,775	918,775
<b>Total Current Assets</b>	<b>909,157</b>	<b>1,382,965</b>	<b>2,292,122</b>
Noncurrent Assets:			
Deferred Charges	0	21,341	21,341
Non-Depreciable Capital Assets	227,900	85,700	313,600
Depreciable Capital Assets, Net	4,569,527	4,606,362	9,175,889
<b>Total Noncurrent Assets</b>	<b>4,797,427</b>	<b>4,713,403</b>	<b>9,510,830</b>
<b>Total Assets</b>	<b>5,706,584</b>	<b>6,096,368</b>	<b>11,802,952</b>
<b>Liabilities</b>			
Current Liabilities:			
Accounts Payable	25,176	42,237	67,413
Accrued Wages	4,247	4,973	9,220
Vacation Benefits Payable	778	755	1,533
Intergovernmental Payable	9,295	10,508	19,803
Accrued Interest Payable	0	7,747	7,747
Compensated Absences Payable	322	156	478
General Obligation Bonds Payable	0	158,532	158,532
OPWC Loans Payable	39,664	68,893	108,557
<b>Total Current Liabilities</b>	<b>79,482</b>	<b>293,801</b>	<b>373,283</b>
Noncurrent Liabilities:			
Compensated Absences Payable - Net of Current Portion	8,786	9,626	18,412
General Obligation Bonds Payable - Net of Current Portion	0	1,079,337	1,079,337
OPWC Loans Payable - Net of Current Portion	544,876	892,185	1,437,061
<b>Total Noncurrent Liabilities</b>	<b>553,662</b>	<b>1,981,148</b>	<b>2,534,810</b>
<b>Total Liabilities</b>	<b>633,144</b>	<b>2,274,949</b>	<b>2,908,093</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	4,212,887	2,497,456	6,710,343
Unrestricted	860,553	1,323,963	2,184,516
<b>Total Net Assets</b>	<b>\$5,073,440</b>	<b>\$3,821,419</b>	<b>\$8,894,859</b>

The notes to the financial statements are an integral part of this statement.

**City of Canal Fulton, Ohio  
Stark County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2007**

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

The notes to the financial statements are an integral part of this statement.

**CITY OF CANAL FULTON, OHIO  
STARK COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**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 were 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 21.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these basic financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City applies Financial Accounting Standards Board Statements (FASB) and Interpretations issued on or before November 30, 1989 to its business-type activities and enterprise funds provided they do not conflict with Governmental Accounting Standards Board pronouncements. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

**A. *Basis of Presentation***

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

**Government-wide Financial Statements**

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

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

**CITY OF CANAL FULTON, OHIO  
STARK COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

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 business segment or governmental function is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operation. The principal operating revenues of the city's proprietary funds are charges for services, operating expenses for the enterprise fund include personnel and other expenses related to sewer, water and sanitation operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

***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. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions typically 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 and/or the general laws of Ohio.

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

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

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

**Proprietary Funds**

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The city reports no internal service funds.

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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 its residential 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 the 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 fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally 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 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.

Agency funds do not report a measurement focus as they do not report operations.

**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. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the 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.

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Revenues - Exchange and Non-Exchange 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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty 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 (See Note 8). 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 a 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, 2007, but which were levied to finance year 2008 operations, have been recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**E. *Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. The Finance Director has been authorized to allocate appropriations to the department and object level within each fund.

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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.

**F. *Cash, Cash Equivalents and Investments***

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

During 2007, investments were limited to Federal Home Loan Bank Bonds.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2007 amounted to \$99,437, which includes \$84,740 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.

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

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

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	5 to 50 years	50 years
Machinery and Equipment	3 to 10 years	5 to 10 years
Vehicles	3 to 10 years	5 years
Infrastructure	10 to 75 years	75 years

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.

**I. *Compensated Absences***

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

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

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

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

**K. *Fund Balance Reserves***

The City records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balances are reserved for encumbrances.

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**L. 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 the constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$745,885 of restricted net assets, of which \$79,197 is restricted by enabling legislation.

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

**M. 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 and water services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

**N. 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.

**O. 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.

**P. 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. Neither type of transaction occurred during 2007.

**Q. 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.

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**NOTE 9 – INTERGOVERNMENTAL RECEIVABLES**

	<u>Amount</u>
<b>Governmental Activities</b>	
Gasoline Tax	\$104,590
Local Government	71,512
Homestead and Rollback	11,293
Permissive Tax	<u>24,307</u>
<i>Total Governmental Activities</i>	<u>\$211,702</u>
<b>Business-Type Activities</b>	
Northwest Local School District Waterline	<u>\$918,775</u>

**NOTE 10 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. During 2007, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

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

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

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

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**NOTE 11 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007 was as follows:

	Beginning Balance <u>01/01/2007</u>	Additions	Deletions	Balance <u>12/31/2007</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$2,433,800	\$234,300	\$0	\$2,668,100
Construction in Progress	89,626	1,558,291	0	1,647,917
<b>Total Capital Assets, Not Being Depreciated</b>	<u>2,523,426</u>	<u>1,792,591</u>	<u>0</u>	<u>4,316,017</u>
<b>Capital Assets, Being Depreciated:</b>				
Buildings and Improvements	3,477,945	4,713	0	3,482,658
Equipment and Machinery	317,442	37,906	0	355,348
Vehicles	1,124,763	136,369	0	1,261,132
<b>Infrastructure:</b>				
Storm Sewers	3,579,030	0	0	3,579,030
Roads	554,610	24,093	0	578,703
<b>Total Capital Assets, Being Depreciated</b>	<u>9,053,790</u>	<u>203,081</u>	<u>0</u>	<u>9,256,871</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	(1,457,095)	(76,306)	0	(1,533,401)
Equipment and Machinery	(172,909)	(42,693)	0	(215,602)
Vehicles	(995,019)	(79,691)	0	(1,074,710)
<b>Infrastructure:</b>				
Storm Sewers	(1,742,296)	(40,266)	0	(1,782,562)
Roads	(97,011)	(29,159)	0	(126,170)
<b>Total Accumulated Depreciation</b>	<u>(4,464,330)</u>	<u>(268,115)*</u>	<u>0</u>	<u>(4,732,445)</u>
<b>Total Capital Assets, Being Depreciated, net</b>	<u>4,589,460</u>	<u>(65,034)</u>	<u>0</u>	<u>4,524,426</u>
<b>Governmental Activities Capital Assets, net</b>	<u>\$7,112,886</u>	<u>\$1,727,557</u>	<u>\$0</u>	<u>\$8,840,443</u>

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	Beginning Balance <u>01/01/2007</u>	Additions	Deletions	Balance 12/31/2007
<b>Business-type Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$313,600	\$0	\$0	\$313,600
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,173,525	38,703	0	4,212,228
Equipment and Machinery	104,941	36,245	0	141,186
Vehicles	77,299	17,708	0	95,007
Infrastructure:				
Sewer Lines	4,982,214	0	0	4,982,214
Water Lines	6,130,699	23,750	0	6,154,449
Total Capital Assets, Being Depreciated	15,468,678	116,406	0	15,585,084
Less Accumulated Depreciation:				
Buildings and Improvements	(1,538,923)	(91,548)	0	(1,630,471)
Equipment and Machinery	(38,471)	(20,539)	0	(59,010)
Vehicles	(52,632)	(11,593)	0	(64,225)
Infrastructure:				
Sewer Lines	(2,074,005)	(66,430)	0	(2,140,435)
Water Lines	(2,438,240)	(76,814)	0	(2,515,054)
Total Accumulated Depreciation	(6,142,271)	(266,924)	0	(6,409,195)
Business-Type Activities Capital Assets, net	9,326,407	(150,518)	0	9,175,889
Business-Type Activities Capital Assets, net	<u>\$9,640,007</u>	<u>(\$150,518)</u>	<u>\$0</u>	<u>\$9,489,489</u>

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

General Government	\$107,279
Security of Persons and Property	104,323
Transportation	56,513
Total Depreciation Expense	<u>\$268,115</u>

**NOTE 12 – NOTES PAYABLE**

A summary of the note transactions for the year ended December 31, 2007, follows:

	Outstanding 12/31/06	Issued	Retired	Outstanding 12/31/07
<b>Governmental Activities:</b>				
4.25% Bond Anticipation Note	\$750,000	\$0	(\$750,000)	\$0

In 2006, 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 were bond anticipation notes, and were backed by the full faith and credit of the City, and matured November 29, 2007. The note liability was reflected in the fund which received the proceeds and repaid the debt.

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**NOTE 13 – LONG-TERM OBLIGATIONS**

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<b>Governmental Activities:</b>			
Downtown Improvement Bonds - 2001	2.6%-4.2%	\$380,000	December 1, 2011
Street Improvement Special Assessment Bonds - 1987	6.5%	\$233,000	December 1, 2007
Fire Station Improvement Bonds - 2006-1	4.25%-5.00%	\$750,000	December 1, 2025
Fire Station Improvement Bonds - 2006-2	4.25%-5.00%	\$750,000	December 1, 2025
Bond Anticipation Note	4.25%	\$605,000	November 28, 2008
<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 - 2005	0.0%	\$600,595	July 1, 2024
OPWC Denshire Sanitary Sewer Loan - 2003	0.0%	\$417,195	July 1, 2022
OPWC Solids handling Improvement Loan - 2003	0.0%	\$376,100	January 1, 2023
OPWC Milan St. Waterline Loan - 2006	0.0%	\$331,649	January 1, 2026
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

Changes in the long-term obligations of the City during 2007 were as follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07	Amount Due In One Year
<b>Governmental Activities:</b>					
<b>General Obligation Bonds</b>					
Downtown Improvement Bonds	\$193,195	\$0	(\$36,723)	\$156,472	\$36,723
Fire Station Bond Series 2006-1	710,000	0	(25,000)	685,000	25,000
Premium on Bonds	8,530	0	(427)	8,103	450
Fire Station Bond Series 2006-2	705,000	0	(25,000)	680,000	25,000
Premium on Bonds	3,549	0	(187)	3,362	187
<b>Total General Obligation Bonds</b>	<b>1,620,274</b>	<b>0</b>	<b>(87,337)</b>	<b>1,532,937</b>	<b>87,360</b>
Bond Anticipation Note	0	605,000	0	605,000	605,000
Special Assessment Bonds with Governmental Commitment	12,000	0	(12,000)	0	0
Capital Leases	0	119,563	(21,944)	97,619	22,887
Compensated Absences	58,653	24,477	(30,848)	52,282	1,688
<b>Total Governmental Activities</b>	<b>\$1,690,927</b>	<b>\$749,040</b>	<b>(\$152,129)</b>	<b>\$2,287,838</b>	<b>\$716,935</b>

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	Balance 01/01/2007	Additions	Deletions	Balance 12/31/2007	Amount Due In One Year
<b>Business -Type Activity:</b>					
<u>OPWC Loans</u>					
OPWC Canal Street Waterline Loan	\$52,340	\$0	(\$6,158)	\$46,182	\$6,158
OPWC Market Street Waterline Loan	137,044	0	(16,123)	120,921	16,123
OPWC Water Treatment Plant Loan	525,520	0	(30,030)	495,490	30,029
OPWC Denshire Sanitary Sewer Loan	323,325	0	(20,860)	302,465	20,859
OPWC Solids Handling Loan	300,880	0	(18,805)	282,075	18,805
OPWC Solids Milan Street Waterline Loan	315,067	0	(16,582)	298,485	16,583
Total OPWC Loans	<u>1,654,176</u>	<u>0</u>	<u>(108,558)</u>	<u>1,545,618</u>	<u>108,557</u>
Water Treatment Plant Bonds	411,805	0	(78,277)	333,528	78,277
Water Plant Expansion Bonds	275,000	0	(55,000)	220,000	55,000
Northwest Waterline Bonds	705,000	0	(25,000)	680,000	25,000
Premium on Bonds	4,596	0	(255)	4,341	255
Compensated Absences	20,832	5,392	(7,334)	18,890	478
Total Business-Type Activity	<u>\$3,071,409</u>	<u>\$5,392</u>	<u>(\$274,424)</u>	<u>\$2,802,377</u>	<u>\$267,567</u>

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 were 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 city has elected to repay the bonds 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.

**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
2021	\$45,000
2022	45,000
2023	50,000
2024	50,000

**CITY OF CANAL FULTON, OHIO  
 STARK COUNTY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2007**

On June 14 and then on July 6, 2006, the City issued Fire Station Improvement Bonds 2006-1 and 2006-2, respectively. Both bonds were issued for \$750,000 for the purpose of constructing a new fire station. The bonds will be paid from the capital improvement fund.

In 2007, the City issued \$605,000 in Bond Anticipation Notes to purchase property. The notes are bond anticipation notes, and mature November 28, 2008. These notes were rolled over in 2008 for \$605,000 with a maturity date of November 28, 2009. Repayment of the notes will be made from property tax receipts. There is currently no amortization schedule available for the bond anticipation notes.

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, 2007 the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$10,384,757 and the unvoted legal debt margin was \$6,804,757. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2007 are as follows:

**Governmental Activities**

Year	Downtown Improvement Bonds		Fire Station Bonds	
	Principal	Interest	Principal	Interest
2008	\$36,723	\$6,323	\$50,000	\$64,650
2009	39,916	4,910	50,000	62,526
2010	39,916	3,313	60,000	60,400
2011	39,917	1,675	60,000	57,850
2012	0	0	60,000	55,300
2013-2017	0	0	340,000	234,650
2018-2022	0	0	435,000	144,750
2023-2025	0	0	310,000	31,500
Total	<u>\$156,472</u>	<u>\$16,221</u>	<u>\$1,365,000</u>	<u>\$711,626</u>

**CITY OF CANAL FULTON, OHIO  
 STARK COUNTY  
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Year	OPWC	Water Treatment		Water Treatment Plant		Northwest	
	Loans	Plant Bonds		Expansion Bonds		Waterline Bonds	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$108,557	\$78,277	\$13,479	\$55,000	\$8,883	\$25,000	\$27,663
2009	\$108,558	85,084	10,465	55,000	6,765	30,000	26,800
2010	\$108,559	85,084	7,062	55,000	4,565	30,000	25,787
2011	\$108,558	85,083	3,574	55,000	2,310	30,000	24,738
2012	\$108,559	0	0	0	0	30,000	23,613
2013-2017	\$487,085	0	0	0	0	170,000	98,419
2018-2022	\$420,952	0	0	0	0	210,000	50,737
2023-2026	\$94,790	0	0	0	0	155,000	18,675
Total	<u>\$1,545,618</u>	<u>\$333,528</u>	<u>\$34,580</u>	<u>\$220,000</u>	<u>\$22,523</u>	<u>\$680,000</u>	<u>\$296,432</u>

**NOTE 14 – CAPITAL LEASES**

The city has entered into a lease agreement for an ambulance. The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards Board No. 13, "Accounting for Leases". Accordingly, the lease has been recorded at the present value of its future minimum lease payments, as of the inception date, in the general capital projects fund.

The following is a schedule of the future minimum lease payments and the present value of the minimum lease payments as of December 31, 2007:

Year Ending December 31	Lease Payments
2008	\$26,796
2009	26,796
2010	26,796
2011	26,796
Total minimum lease payments	107,184
Less: Amount representing interest	(9,565)
Present value of net minimum lease payments	<u>\$97,619</u>

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Public Employees Retirement System**

All employees of the City, with the exclusion of City police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – 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 member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2007, member and employer contribution rates were consistent across all three plans. The 2007 member contribution rates were 9.5% for members in local classifications. The 2007 employer contribution rate was 13.85% of covered payroll. The City's required contributions for pension obligations to the OPERS for the years ending December 31, 2007, 2006, and 2005 were \$71,192, \$96,480, and \$83,493, respectively. The full amount has been contributed for 2006 and 2005. 84.77% has been contributed for 2007.

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for the years ended December 31, 2007, 2006, and 2005 \$40,657, \$47,106, and \$47,434, respectively, equal to the required contributions for each year. The full amount has been contributed for 2006 and 2005. 74.66% has been contributed for 2007 with the remainder being reported as a liability.

**C. *Social Security System***

All volunteer firefighters and Council members, not otherwise covered by another retirement system, are covered by Social Security. The City's liability is 6.2% of wages paid.

**NOTE 16 – POSTEMPLOYMENT BENEFITS**

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

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer

**CITY OF CANAL FULTON, OHIO  
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contributions. The 2007 employer contribution rate was 13.85% of covered payroll. The portion of employer contributions, for all employers, allocated to health care was 5.00% from January 1 through June 30, 2007 and 6.00% from July 1 through December 31, 2007. The City's actual contributions for 2007 which were used to fund post-employment benefits were \$21,315 for January 1 through June 30, 2007 and \$25,578 for June 30 through December 31, 2007.

The Ohio Revised Code provides the statutory authority requiring employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5%, an annual increase in active employee total payroll of 4.0% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll over and above the 4.0% base increase of between .50% and 6.3% based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 5% for the next eight years. In subsequent years (nine and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

OPEB is advance-funded on an actuarially determined basis.

At year end 2007, the Traditional Pension and Combined Plans had 374,979 active contributing participants. The number of active contributing participants for both plans used in the December 31, 2006 actuarial valuation was 362,130. The actual contribution and the actuarially required contribution amounts are the same. OPERS net assets available for payment of benefits at December 31, 2006, (the latest information available) were \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008 which allowed 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 post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check, 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 Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F Ohio shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The City's actual contributions for 2007 which were used to fund post-employment benefits were \$28,830 for police.

The Ohio Revised Code provides the statutory authority allowing the OP&F Ohio's Board of Trustees to provide health care coverage to all eligible individuals.

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Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2006 and 6.75% of covered payroll in 2007. 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 number of participants eligible statewide to receive health care benefits as of December 31, 2006, the date of the last actuarial valuation available, are 14,120 for police officers and 10,563 for firefighters. The OP&F Ohio's total health care expense for the year ending December 31, 2006, the date of the last actuarial valuation available, was \$120,373,722, which was net of member contributions of \$58,532,848.

**NOTE 17 – 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 portions of the monthly premiums for 2007 were \$832.51 for family, \$593.84 for employee and spouse, \$505.48 for employee and children, and \$275.46 for single.

**NOTE 18 - CONTINGENT LIABILITIES**

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, City management believes such disallowances, if any, will be immaterial.

**NOTE 19 - INTERFUND TRANSACTIONS**

**A. Transfers**

Interfund transfers for the year ending December 31, 2007 consisted of the following:

Transfers In:	Transfers Out:
	General
Police	\$638,949
Capital Improvements	\$915,875
All Other Governmental Funds	348,398
Total	<u>\$1,903,222</u>

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.

**CITY OF CANAL FULTON, OHIO  
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\$638,949 was transferred from the general fund to the police fund to supplement the funds available for police protection. Of the \$915,875 transferred from the general fund to the capital improvements fund, \$134,000 was transferred to supplement the funds available for capital improvements and \$781,875 was transferred to retire debt. Of the \$348,398 transferred from the general fund to all other governmental funds, \$10,000 was transferred to the street maintenance fund to supplement the funds availability from maintaining City streets, \$250,000 was transferred to the fire/EMS fund to supplement the funds available for fire fighting and emergency medical services. \$13,398 was transferred to the Elm Ridge special assessment fund to retire debt, and \$75,000 was transferred to the downtown improvement fund to retire debt.

**B. Interfund Balances**

Interfund balances at December 31, 2007 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.

**NOTE 20 – LITIGATION**

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

**NOTE 21 – 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 2007, 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 2007. 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 2007.

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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 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 2007, the City made contributions of \$70,336. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

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# Mary Taylor, CPA

Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Fulton, Stark County, Ohio, (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-005 through 2007-009.

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A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-005 through 2007-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated December 19, 2008.

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

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-004.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated December 19, 2008.

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

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



**Mary Taylor, CPA**  
Auditor of State

December 19, 2008

CITY OF CANAL FULTON  
STARK COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007

**1. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

**FINDING NUMBER 2007-001**

**Finding for Recovery Repaid Under Audit – Overpayment**

Ordinance No. 11-06 indicates the annual rates of pay and salaries for all City employees. Ordinance No. 16-94 indicates any employees having any Water or Sewer Licenses, Class I, II, III, IV, shall be entitled to an additional stipend of \$500 per employee, regardless if that employee may hold several licenses. Based on a review of payroll records, Daniel Mayberry, Service Director, was paid a \$500 stipend twice.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Daniel Mayberry, Service Director, in the total amount of \$500, and in favor of the City of Canal Fulton, Water Operating Fund in the amount of \$200, Sewer Operating Fund in the amount of \$200, and General Fund in the amount of \$100.

On November 19, 2008, Daniel Mayberry completed repayment to the City in the amount of \$500.

**Official's Response:** Error from former payroll clerk, new clerk has been advised to monitor.

**FINDING NUMBER 2007-002**

**Finding for Recovery Repaid Under Audit – Overpayment**

Ordinance No. 11-06 indicates the annual rates of pay and salaries for all City employees. Ordinance No. 16-94 indicates any employees having any Water or Sewer Licenses, Class I, II, III, IV, shall be entitled to an additional stipend of \$500 per employee, regardless if that employee may hold several licenses. Based on a review of payroll records, George Lukinac, Utilities Superintendent, was paid a \$500 stipend twice.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against George Lukinac, Utilities Superintendent, in the total amount of \$500, and in favor of the City of Canal Fulton, Water Operating Fund in the amount of \$250 and Sewer Operating Fund in the amount of \$250.

On November 3, 2008, George Lukinac completed repayment to the City in the amount of \$500.

**Official's Response:** Error from former payroll clerk, new clerk has been advised to monitor.

**FINDING NUMBER 2007-003**

**Material Noncompliance**

**Ohio Rev. Code Section 5705.39** requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the City to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

**FINDING NUMBER 2007-003 (Continued)**

<u>Fund</u>	<u>Original Estimated Resources plus Prior Year Fund Balance</u>	<u>Original Appropriations plus Prior Year Encumbrances</u>	<u>Variance</u>
General Fund	\$1,238,064	\$2,636,412	(\$1,398,348)
<u>Fund</u>	<u>Final Estimated Resources plus Prior Year Fund Balance</u>	<u>Final Appropriations plus Prior Year Encumbrances</u>	<u>Variance</u>
General Fund	\$3,283,074	\$3,489,722	(\$206,648)
Downtown Imp. Fund	84,351	861,226	(776,875)

In addition, the City did not always obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments. The Finance Director and City Council should monitor appropriations versus estimated resources to help avoid the potential of overspending. In addition, the Finance Director should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

**Official's Response:** Supplemental Appropriations were sent to the Auditor's office but was not followed up to ensure auditor sent back amended forms. Email verifications will be used for follow up for receipt of amendments. Finance Director will monitor appropriations before closing month.

**FINDING NUMBER 2007-004**

**Material Noncompliance**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**FINDING NUMBER 2007-004 (Continued)**

**1. "Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection to the credit of a proper fund, properly appropriated and free from a previous encumbrance, they can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City's.

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During fiscal year 2007, 24 out of 83 (29%) of expenditures tested were not certified as to the availability of funds by the Finance Director prior to incurring the obligations. 6 out of 83 (7%) of expenditures tested the City did not issue purchase orders and of the 6 expenditures 3 were for utilities. Similar expenditures noted within the Accounts Payable testing was noted where the City did not issue purchase orders.

The City should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41. However, such certifications should only be used for recurring and reasonably predictable matters or emergency matters which arise from time to time. The City should also ensure utility payments are encumbered and properly certified prior to payment.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, the Finance Director should certify that funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

The City should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Finance Director should sign the certification at the time the City incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Finance Director should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response:** Super blankets for utilities and fuel will be utilized. Purchase orders that are using the then and now certificate will be closely checked to the date of the invoice as well as the date actually ordered.

**FINDING NUMBER 2007-005**

**Material Weakness – Bank Reconciliations**

A necessary step in the internal control over financial reporting is to reconcile the bank balance and the cash balance in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the City's records at a specific point in time. During testing of bank reconciliations the following was noted:

- Neither preparer nor reviewer signed the bank reconciliation as evidence of the performance and review of the bank reconciliation.
- Only five of approximately 480 daily confirmations for sweep repurchase agreement transactions were opened during fiscal year 2007. No review was performed on the remaining daily confirmations, as they remained unopened until the review by audit staff.
- \$51,834 of General Capital Project Fund interest on CDs, which matured every seven days, was posted to the books at year-end rather than as the interest was received.
- Inaccurate or unsupported reconciling amount as noted below:
  - Payroll Deduction Withholdings of \$6,672, which were incurred but not disbursed, were improperly classified as Outstanding Checks rather than as separate book adjustment reconciling items.
  - \$5,000 of unposted interest was not reported as a reconciling item on the December 31, 2007 cash reconciliation.
  - Nine "Unposted Prior Year Adjustments" totaling \$1,346 and two "2007 Book Adjustments" totaling \$1,640 were reported as "Unknown Variances." These "Unknown Variances" and various other reconciling items lacked adequate supporting documentation such as invoices.
  - One "2007 Book Adjustments" of \$220 was originally a proper reconciling item due to timing, but should have been removed from the bank reconciliation prior to the end of the current audit period, as it was no longer a reconciling item at December 31, 2007.
  - Five "Unposted Prior Year Adjustments" totaling \$32,141 and one "2007 Book Adjustments" of \$84 appeared to be proper reconciling items; however, the original reconciling item amounts were incorrect, based on the available supporting documentation. The total reconciling items supported by documentation were \$29,874 and \$38, respectively.
  - One "Unposted Prior Year Adjustments" for \$165 and one "2007 Book Adjustments" for an immaterial amount were included in the net amount for a separate 2007 reconciling item, which was also reported on the cash reconciliation. As a result, these amounts were included on the cash reconciliation twice.
  - Two "Unposted Prior Year Adjustments" totaling \$9,464 were not accounted for originally by the City as reconciling items.
  - Seven "Unposted Prior Year Adjustments" totaling \$8,124 were listed as unposted expenditures or revenues; however, the amounts were properly posted to the City's books. As a result, these reconciling items were improperly classified as reconciling items.
  - One outstanding payroll check for \$45, which was properly included on the Payroll Outstanding Checklist, was improperly included as a "2007 Book Adjustments" reconciling item. As a result, the amount was included on the cash reconciliation twice.
  - One 2007 Deposit in Transit for \$848, which was properly included as a deposit in transit, was improperly included as a "2007 Book Adjustments" reconciling item. As a result, the amount was included on the cash reconciliation twice.
  - One "Unposted Prior Year Adjustments", five "2007 Book Adjustments", and a Payroll Deduction Withholdings reconciling item were the net of individual reconciling items rather than separately reported reconciling items.

**FINDING NUMBER 2007-005 (Continued)**

- The City does not have formal procedures in place to ensure adequate support is maintained for Nonsufficient Funds (NSF) checks to ensure NSF checks are properly recorded on the bank reconciliation. For one of the NSF checks tested, the support for the NSF check was not maintained in accordance with the City's informal process of maintaining NSF check support (e.g., Notice of NSF from the bank, deposit slips). Additionally, both the original receipt of the NSF check and the subsequent receipt for any applicable amount rebilled in order to resolve the NSF check would be reported as revenue during the receipt of the monthly income tax and utility collections revenues to the City's accounting system. Therefore, the potential exists for revenue from income tax and utility collections to be overstated by the amount that is rebilled.
- A net projected estimate of \$8,936 was calculated and reported on the December 2007 bank reconciliation based on the unposted "2007 Book Adjustments" and the "Unposted Prior-Year Adjustments". This net amount represents the bank amount in excess of the book.
- Although the accounting system is able to prepare the outstanding checklist, the feature is not utilized; instead the outstanding checklists were manually generated lists. As a result, the potential exists for errors to occur during the process of generating the outstanding checklists.

As an established control procedure, monthly bank to book reconciliations should be prepared by the Finance Director and then reviewed and accepted by the City Council. Without complete and accurate monthly bank reconciliations, the City's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the City's management. In addition, City management is not provided with timely fiscal information that is vital to the continued operation and decision making process of the City.

The City should perform timely complete monthly bank reconciliations, including documentation of performance, review and approval. Performing bank reconciliations on a monthly and timely basis will help to ensure there is support for all reconciling items. A copy of the monthly bank reconciliation and the listing of outstanding checks should be provided monthly to the Council for their review. All reconciling items should be appropriately documented. Any unreconciled differences should be resolved as quickly as possible so they are not carried forward from month-to-month.

In addition, as part of the bank reconciliation process, the City should:

- Review the bank reconciliation, and document who performed the review and when the review was performed, in addition to documentation of who originally completed the reconciliation.
- Review bank correspondence, including but not limited to daily confirmations for Sweep Repurchase Agreement transactions and monthly Merchant Billing Statements of credit card receipt settlements, to help ensure the identification of all reconciling items.
- Post revenues and expenditures in a timely manner as the receipts are received and expenditures are disbursed. Reconciling items for unposted revenue and expenditures should also be posted in a timely manner once they are identified.
- Ensure bank reconciliations are accurate by reviewing all reconciling items, outstanding checks, deposit-in-transit and ensuring they are properly supported, identified, classified, and reported and that all supporting documentation are maintained. In addition, all reconciling items caused by timing, such as deposits-in-transit, are removed from subsequent bank reconciliations once underlying timing issues are resolved. The City should subject any reconciling items which remain on the bank reconciliation for extended periods of time to further investigation as to why the underlying timing issues have not been resolved. Finally, all reconciling items should be individually listed on the bank reconciliation and not "netted".
- Improve the procedures for tracking NSF checks which primarily includes maintaining documentation which supports the NSF check amounts. This procedure if implemented should strengthen procedures over the tracking and reporting of NSF checks.
- Post, with Council approval, the projected estimate of \$8,935.94 as a single adjustment to the General Fund in order to reconcile the books to the bank.

**FINDING NUMBER 2007-005 (Continued)**

- Consider using system generated Outstanding Checklists to reduce the potential for errors caused by manually generated outstanding checklists.

**Official's Response:** Prior year balances were not reconciled and past independent auditors for two years deemed them "immaterial". Outstanding reconciliation items dating back to 2004 were recently reconciled and were not brought forward and posted to ledgers until reviewed and approved by the State Auditor. The monthly bank reconciliations have been done for 2008 and will continue to be done by the Finance Director on a monthly basis and attached to the monthly financial report received by City Council. New nsf check procedures have been implemented with the utility and tax dept. and consist of signing off on adjustments and verifying all nsf checks on a monthly basis.

**FINDING NUMBER 2007-006**

**Material Weakness – Emergency Medical Service (EMS) Procedures**

The City utilizes a third-party administrator to process EMS billings and maintain customer accounts; however, the following deficiencies were noted during the testing of EMS billing and receipts:

- Two of 60 runs tested, or 3.33%, had individual run sheets that noted the patient as a resident of the City while the patient was actually a Lawrence Township resident, resulting in no billing but the appearance of a run that should have been billed.
- One of 60 runs tested, or 1.67%, had mileage of \$72 that was improperly not billed by the third-party administrator, due to an error at the third-party administrator, resulting in under-billing not noted by the City.
- For six of 60 runs tested, or 10%, the mileage sheet for the run was not submitted to the third-party administrator, resulting in mileage of \$580 not being billed. Due to no one reviewing the billing reports, this was not noted by the City.
- Seven of 60 runs tested, or 11.67%, were not submitted to the third-party administrator for billing, despite evidence showing billing should have been performed on these runs. As a result, runs aggregating to \$4,630 were never billed. Due to no one reviewing the billing reports, this was not noted by the City.
- Two of 60 run sheets tested, or 3.33%, noted the patient was taken to a local hospital; however, the Firehouse system utilized by the City denoted no transport took place, resulting in runs of \$1,428 that were never billed.
- One receipt from August 2007 was not submitted to the third-party administrator until October 2007, as it was an amount received via EFT from Medicaid that was not included with the other EMS receipts deposited by the City.
- The Finance Director reviews monthly receipt reports from the third-party administrator to help ensure amounts were properly recorded; however, no documentation of the review was performed.
- There was no evidence billing reports submitted to the third-party administrator for billings were reviewed by anyone from the City.
- Delinquent billing reports are received monthly by the City Finance Director and the Fire Chief; however, these reports are not submitted to Council for their review.
- No evidence of written policies addressing the billing process.

In order to correct these deficiencies, the City should appoint an individual or individuals to:

- Review and correct run sheets completed by the EMT to reflect accurate residency information as input into the Firehouse System.
- Review billing reports from the third-party administrator to help ensure completeness and accuracy of bills produced by the third-party administrator, including mileage.
- Review information submitted to the third-party administrator for completeness and accuracy, including all mileage to be billed.

**FINDING NUMBER 2007-006 (Continued)**

- Compare information to be submitted to the third-party administrator to the runs related to that information to help ensure complete and accurate submission and billing.
- Review and correct run sheets completed by the EMT and/or entered into the Firehouse System to reflect accurate transport information.
- Reconcile monthly EMS receipts recorded by the City to those credited to patient accounts by the third-party administrator, to help ensure complete and timely submission to the third-party administrator.
- Document the review of the third-party administrator's receipt report by initialing and dating the report after completing the review and maintaining the report to help ensure proper documentation.
- Document the review of the billing reports submitted to the third-party administrator.
- Submit Delinquent billing reports to Council for their review and approval, and if necessary write-offs of any uncollectible billings.
- Adopt written policies on the billing process including responsibilities of individuals.

The City may also help assure the completeness and accuracy of EMS billings processed by its third-party administrator by requiring a Statement on Auditing Standards (SAS) No. 70 report. SAS 70, as amended, prescribes standards for reporting on service organizations. An unqualified (Type One or Two) SAS No. 70 report should provide the City with reasonable assurance that EMS billings conform to the contract.

**Official's Response:** a review of the process with the fire chief and the monthly run reports will be submitted each month to Council. The run reports will be forwarded to our billing agency to reconcile the run report with the actual runs submitted for payment.

**FINDING NUMBER 2007-007**

**Material Weakness - Generally Accepted Accounting Principles (GAAP) Conversion**

The City does not have a Generally Accepted Accounting Principles (GAAP) conversion plan used to report on the accrual basis of accounting. The lack of a plan could increase the chance that errors could occur during the conversion process due to inconsistencies of accounting principles used from year to year. Below are errors noted within the current year conversion:

- Full accrual adjustments to recognize prior year deferred revenue as earned revenue for Income Tax Revenue in the General Fund was misclassified as Intergovernmental Revenue of \$591,851.
- The GAAP conversion team's calculation of Income Taxes Receivable was calculated using total Income Tax receipts received from January 01, 2008 to June 30, 2008 resulting in an overstatement of Income Taxes Receivable in the General Fund of \$407,335.
- Real Estate and Personal Property Taxes received in the General Capital Improvements Fund totaling \$133,197 were rolled-up as Intergovernmental Revenue.
- Intergovernmental Receivable and Deferred Revenue in Remaining Fund Information (RFI) were understated by \$51,797 due to the exclusion of the deferred portion of county auto registration revenues in the Intergovernmental Receivable.
- In comparing the Modified Accrual Journal Entries to the GAAP conversion workpapers for RFI, it was noted the current and deferred portions of Intergovernmental Receivable were recorded as the wrong classification (current vs. deferred) resulting in an adjustment to Deferred Revenue of \$24,668 and Intergovernmental Receivable of \$432. Another factor contributing to this adjustment was the GAAP conversion team simply subtracting the January 2008 receipt amount for each account from the account's December 31, 2007 total receipt amount.
- The GAAP conversion team's calculation of Accrued Wages was calculated using 5 days of accrued wages rather than 6 days resulting in an understatement of accrued wages in the Police Fund of \$1,805.

**FINDING NUMBER 2007-007 (Continued)**

- The 2007 Ohio Police & Fire Pension (Intergovernmental) Payable of \$21,106 was improperly recorded in the General Fund rather than the Police Fund.
- A portion of the 2006 Intergovernmental Payable liability in the Police Fund was not properly reversed in the current year resulting in an overstatement in of \$19,577.
- \$5,280 of Licenses and Permits receipts were improperly reported as a receivable at December 31, 2007.
- Two separate Modified Accrual Adjustments to cash in the General Fund for previously unposted Interest Income resulted in duplicate \$5,000 adjustments.

To help improve the GAAP process and aid in a consistent conversion, the City should adopt an official GAAP conversion plan with modifications made for future updates. In addition, the City and the GAAP conversion team should:

- Review Journal Entries to ensure the adjustments are posted to the proper accounts in the correct amounts.
- Obtain detailed Income Tax receipt reports by tax year for the period January 1, 2008 through June 30, 2008 from the Income Tax Department and accrue the income tax receipts related to the tax (2007) year to arrive at the Income Taxes Receivable amount.
- Utilize account codes and names as provided by the City as an indication of how revenues should be classified.
- Review intergovernmental receivable worksheets to ensure all receivables have been included in the calculation and follows GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."
- Review Intergovernmental Receivables to ensure proper classification. In addition, when calculating Intergovernmental Receivable amounts for gasoline tax, the January 2008 receipt amounts should be added to the February 2007 through June 2007 receipt amounts to arrive at a more accurate Intergovernmental Receivable amount based on GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." (see also AoS Bulletin 2001 - 004).
- Utilize the correct number of days for which wages were accrued when computing Accrued Wages.
- Review amounts recorded as payable for proper and reasonable classification.
- Review reversing entries to help ensure amounts are complete and accurate.
- Review documentation for receipts to help ensure only actual receivables are accrued.
- Review Journal Entries to ensure adjustments are not repeated.

**Official's Response:** GAAP conversion has been switched over from a private firm to the State Auditor's Local Government Service section this year.

**FINDING NUMBER 2007-008**

**Material Weakness - Accounts Payable**

The following items were identified during December 31, 2007 Accounts Payable testing:

- The City improperly included \$12,618 of 2008 expenditures as Accounts Payable within various Opinion Units.
- The City improperly excluded \$78,041 of expenditures related to 2007 services from Accounts Payable within various Opinion Units. Several of these improperly excluded amounts were disbursements made more than two months after year-end, however, related to services rendered in 2007.
- \$1,255 was excluded from Accounts Payable in various Opinion Units, because only a portion of the respective invoices were included on the payable listing.

**FINDING NUMBER 2007-008 (Continued)**

- Due to the associated payable being fully or partially improperly excluded from Accounts Payable, \$25,252 of Outstanding Encumbrances in the various Opinion Units was improperly not removed from Outstanding Encumbrances to arrive at GAAP Reserve for Encumbrances.
- \$798 payable to the City of Massillon was misclassified as Accounts Payable in the Police Fund rather than Intergovernmental Payable in the Police Fund.

In help improve the Accounts Payable within the GAAP Conversion process the City and/or the GAAP conversion team should:

- Review the expenditure invoices during the creation of the accounts payable list in order to ensure the City has an obligation to pay at year-end for the expenditure.
- Review expenditures from all accounts and funds during the creation of the accounts payable list to help ensure the inclusion within accounts payable of all expenditures for which the City has an obligation to pay at year-end. Additionally, the City should consider whether any expenditure paid beyond two months after year should be included in the accounts payable list.
- Review the expenditures included as accounts payable to help ensure that all expenses related to the prior year are included as payable.
- Review amounts removed from the Reserve for Encumbrances to help ensure that all encumbered amounts included as payable are properly removed from that Fund Balance reservation.
- Review the accounts payable list to determine whether any of the possible accounts payable would be more properly classified as another type of payable or liability such as Intergovernmental Payable.

**Official's Response:** Finance Director will work closely with the new GAAP team that is preparing future statements.

**FINDING NUMBER 2007-009**

**Material Weakness - Reserve for Encumbrances**

Purchase orders as old as 2004 were not closed at year-end although no obligation or commitment existed at December 31, 2007. As a result, proposed audit adjustments were made to reduce the Reserve for Encumbrances within the General Fund of \$40,220; Police Fund of \$3,732; Capital Improvements Fund of \$102,868; Water Fund of \$2,214; Sewer Fund of \$2,314; and RFI of \$36,585.

In order to help ensure proper year-end reporting of the Reserve for Encumbrances, the City should closeout all purchase orders that will not be charged after year-end.

**Official's Response:** All Previous purchase orders in the system will be closed at the end of the year, unless active.

**CITY OF CANAL FULTON  
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	5705.14, 15, 16 – Transfer of Funds from Income Tax Fund to General Fund	No	Partially Corrected – See Management Letter
2006-002	Bank Reconciliations not being performed	No	Partially Corrected – See Finding 2007-005
2006-003	Restatement due to incorrect Audit Adjustment	Yes	Fully Corrected



**Mary Taylor, CPA**  
Auditor of State

**CITY OF CANAL FULTON**

**STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 3, 2009**

