



Dave Yost • Auditor of State

**CITY OF CANAL FULTON
STARK COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Canal Fulton, Stark County, Ohio (the City), as of and for the year ended December 31, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Canal Fulton, Stark County, Ohio, as of December 31, 2011 and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Street Maintenance, Police, and Fire/EMS funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As describe in Note 3, City of Canal Fulton implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In addition as describe in Note 3, during 2011, the City restated its net assets of the governmental activities due to the understatement in the prior year capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

Dave Yost
Auditor of State

July 27, 2012

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis for the City of Canal Fulton's (the City) financial statements provide an overall review of the financial activity of the City for the twelve months ended December 31, 2011. The intent of this discussion is to provide a narrative that describes the City's performance as a whole. To obtain a more detailed understanding, one should also review the basic financial statements and the notes to the basic financial statements.

Financial Highlights

Financial highlights for 2011 are as follows:

- Income tax collections (on a cash basis) rebounded from the decreased 2010 revenues of \$1,881,233 to \$2,025,816, which exceeds the previous record income tax collections of \$1,960,101 in 2009.
- The City completed the construction of the Marshallville Street sanitary sewer project using funding from an American Recovery and Restoration Act (ARRA) grant and sewer fund balances.
- Construction of the High Street / Erie Avenue project, which began in 2010, was nearly complete. The project uses funding from the OPWC, a Community Development Block Grant, and Stark County. Phase I of the High Street / Erie Avenue project consists of road widening. Phase II of the High Street / Erie Avenue project consists of storm water improvements to the Plum Creek culvert project.

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 2011 and how they affected the operations of the City as a whole.

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

Reporting the City of Canal Fulton as a Whole

Statement of Net Assets and Statement of Activities

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

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

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

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

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

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

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

Fund Financial Statements

The analysis of the City's major funds begins on page 8. Fund financial reports give a detailed report of the activities within the funds. The City currently has eighteen funds, as presented in this report. These funds are in existence to provide a multitude of services to the citizens of Canal Fulton. Some funds provide for streets, police, fire and emergency medical service protection, capital improvements, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. Each fund is in some ways an entity unto itself. Each fund, other than the general fund, has a designated revenue stream and designated uses for the monies within the fund.

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

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

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

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

The City of Canal Fulton as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2011 as they compare to 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 - Restated	2011	2010	2011	2010
Assets						
Current and Other Assets	\$2,659,347	\$2,210,727	\$896,043	\$927,755	\$3,555,390	\$3,138,482
Capital Assets, Net	9,667,496	9,342,553	8,305,484	8,680,987	17,972,980	18,023,540
<i>Total Assets</i>	<u>12,326,843</u>	<u>11,553,280</u>	<u>9,201,527</u>	<u>9,608,742</u>	<u>21,528,370</u>	<u>21,162,022</u>
Liabilities						
Current Liabilities	451,011	486,361	57,725	83,023	508,736	569,384
Long-Term Liabilities:						
Due Within One Year	60,000	125,882	142,436	278,641	202,436	404,523
Due in More Than One Year	1,170,214	1,222,063	1,718,938	1,892,384	2,889,152	3,114,447
<i>Total Liabilities</i>	<u>1,681,225</u>	<u>1,834,306</u>	<u>1,919,099</u>	<u>2,254,048</u>	<u>3,600,324</u>	<u>4,088,354</u>
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	8,522,496	8,071,671	6,527,679	6,588,454	15,050,175	14,660,125
Restricted for:						
Capital Projects	277,209	454,281	0	0	277,209	454,281
Debt Service	0	24,664	0	0	0	24,664
Street Repair and Maintenance	390,788	311,691	0	0	390,788	311,691
Police Protection	27,444	52,068	0	0	27,444	52,068
Other Purposes	21,524	172,576	0	0	21,524	172,576
Unclaimed Monies	2,731	4,816	0	0	2,731	4,816
Unrestricted	1,403,426	627,207	754,749	766,240	2,158,175	1,393,447
<i>Total Net Assets</i>	<u>\$10,645,618</u>	<u>\$9,718,974</u>	<u>\$7,282,428</u>	<u>\$7,354,694</u>	<u>\$17,928,046</u>	<u>\$17,073,668</u>

Total assets increased in 2011 as a result of an increase in both cash and cash equivalents and income tax receivable.

Current liabilities were slightly lower in 2011. Long-term liabilities showed a more sizeable decrease due to paying down debt.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
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Table 2 shows the changes in net assets for the year ended December 31, 2011, for both governmental and business-type activities.

Table 2
Change in Net Assets

	Governmental		Business - Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for Services and Sales	\$189,246	\$217,488	\$1,391,292	\$1,400,955	\$1,580,538	\$1,618,443
Operating Grants and Contributions	348,692	326,287	0	0	348,692	326,287
Capital Grants and Contributions	459,472	372,620	32,654	188,705	492,126	561,325
Total Program Revenues	997,410	916,395	1,423,946	1,589,660	2,421,356	2,506,055
General Revenues:						
Property Taxes	287,903	309,682	0	0	287,903	309,682
Income Taxes	2,136,125	1,872,433	0	0	2,136,125	1,872,433
Grants and Entitlements	307,238	374,840	0	0	307,238	374,840
Interest	102	1,653	0	0	102	1,653
Other	75,290	24,713	1,372	4,377	76,662	29,090
Total General Revenues	2,806,658	2,583,321	1,372	4,377	2,808,030	2,587,698
Total Revenues	3,804,068	3,499,716	1,425,318	1,594,037	5,229,386	5,093,753
Program Expenses						
General Government	699,287	653,963	0	0	699,287	653,963
Security of Persons and Property	1,544,127	1,407,459	0	0	1,544,127	1,407,459
Transportation	391,491	510,360	0	0	391,491	510,360
Leisure Time Activities	123,679	105,905	0	0	123,679	105,905
Community Environment	0	5,293	0	0	0	5,293
Interest and Fiscal Charges	58,840	36,376	0	0	58,840	36,376
Water	0	0	700,984	655,865	700,984	655,865
Sewer	0	0	856,600	842,909	856,600	842,909
Total Program Expenses	2,817,424	2,719,356	1,557,584	1,498,774	4,375,008	4,218,130
Increase/(Decrease) in Net Assets						
Before Transfers	986,644	780,360	(132,266)	95,263	854,378	875,623
Transfers	(60,000)	(115,000)	60,000	115,000	0	0
Increase (Decrease) in Net Assets	926,644	665,360	(72,266)	210,263	854,378	875,623
Net Assets Beginning of Year -						
Restated (See Note 3)	9,718,974	9,053,614	7,354,694	7,144,431	17,073,668	16,198,045
Net Assets End of Year	\$10,645,618	\$9,718,974	\$7,282,428	\$7,354,694	\$17,928,046	\$17,073,668

In 2011, total revenues exceeded total revenues in the prior year. A large part of this increase is due to the increase in income taxes. Income tax collections were up in 2011 due to the recovery of the local tax base, which as a bedroom community is due to the overall recovery of the regional economy and the growth of oil and natural gas exploration and production in the Utica and Marcellus shale.

Offsetting this increase were decreases in charges for services, capital grants and contributions, as well as property tax revenue. The decrease in charges for services was due to 2011 reversing accrual entry used for revenue recognition in the governmental activities and decreased consumption in the water and sewer utilities. Water consumption decreased from 138,587,000 gallons billed in 2010 to 131,376,000 billed in 2011. Sewer consumption decreased from 125,119,000 gallons billed in 2010 to 118,058,000 billed in

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2011. The decreases in the capital grants and contributions were due to a one-time American Recovery and Restoration Act (ARRA) grant in 2010 for the construction of the Marshallville Street sanitary sewer. The decrease in property tax revenue is due to lower assessed values on property itself, since the City property tax levies consist of a bond levy for the fire station and inside millage.

Both governmental and business-type expenses were higher in 2011 than in the prior year. Contributing factors for these increases were higher personal service costs related to the police department and the loss on disposal of assets related to the water and sewer funds.

Governmental Activities

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

The City's income tax was established to be effective January 1, 1984 at a rate of 0.5 percent. This rate was later increased to 0.75 percent effective January 1, 1996 and further increased to 1 percent effective January 1, 2001. In the November, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.1 percent effective January 1, 2005. Lastly, effective on January 1, 2007 the income tax rate moved from the previous 1.1 percent to 1.5 percent. Also, on January 1, 2003, the City allowed a 50 percent credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. On a full accrual basis, the City received income tax revenue of \$2,136,125.

The operations of the City's police and fire departments account for the largest expenses of the governmental activities, representing 54.81 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a chief, lieutenant, secretary, and seven patrolmen comprising the full-time employees and two part-time patrolmen. The fire department is staffed by part-time firefighters. The remaining amount that is needed to operate the police department is subsidized by the general fund and income tax revenue.

Business-Type Activities

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

The water utility services 2,058 customers which include residents of the City as well as outside-City customers. The City's water rates are \$2.32 per thousand gallons for inside City residential customers and \$5.80 per thousand gallons for outside City residential customers.

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

The City provides sewer treatment services. The City owns and maintains sewer lines throughout the City. The City charges residential customers a minimum rate of \$13.83 and then \$2.82 per 1,000 gallons. For customers who pay sewer only, these residents pay a flat rate of \$21.63. As of December 31, 2011, the City had 51 of these accounts.

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The revenues and expenses for both of these utilities are reported under the business-type activities in Table 2. The majority of revenues are derived from charges for services. In 2011, revenues of \$1,425,318 were less than the total expenses for the utilities of \$1,557,584, resulting in a loss before transfers of \$132,266 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$3,711,345 and expenditures of \$3,266,313. The City's general fund reflected an increase in fund balance of \$404,621, mainly due to higher income tax revenue and carries forward an ending fund balance of \$727,058. The street maintenance and fire/ems funds had positive changes in fund balance with ending fund balances of \$190,411 and \$192,801, respectively. The street maintenance's revenues were able to cover its expenditures, unlike the prior year, and the fire/ems fund had lower expenditures than the prior year. The police fund had a decrease of \$32,321 due to higher expenditures and lower revenues than the prior year, and the general capital projects fund had a decrease of \$133,431 due to expenditures outpacing revenues. These two funds had ending fund balances of \$31,743 and \$172,096, respectively.

Information about the proprietary funds starts on page 24. These funds are accounted for on an accrual basis. All enterprise funds had operating revenues of \$1,392,664 and an operating loss of \$4,385.

Budgeting Highlights

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the personal services and individual object level within each department. Any budgetary modifications at this level may only be made by ordinance of City Council. During 2011, seventeen supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Intra-fund transfers within existing appropriations are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

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

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

For the general fund, original and final budgeted revenues were \$2,244,475 and \$2,370,390, respectively, and actual revenue collections were \$2,460,126. The increase in budgeted to actual revenue was primarily due to higher income tax revenue collections.

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Also in the general fund, the original budgeted expenditures and final budgeted expenditures were \$806,472 and \$846,048, respectively. The actual expenditures were \$688,957. The main difference between actual expenditures and final appropriations was mainly due to diligent oversight of expenditures for contracted services and supplies by the Administrative, Finance, Parks and Recreation, Lands and Buildings, and Income tax departments, each of which spent approximately \$30,500, \$12,100, \$13,300, \$23,600, and \$32,600, respective, less than anticipated. The City's ending unencumbered cash balance in the general fund was \$246,827 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Total	
	2011	Restated	2011	2010	2011	Restated
		2010				2010
Land	\$3,023,152	\$3,023,152	\$234,514	\$313,600	\$3,257,666	\$3,336,752
Construction in Progress	1,092,429	503,244	0	341,681	1,092,429	844,925
Buildings and Improvements	3,069,339	3,175,747	2,237,514	2,353,540	5,306,853	5,529,287
Equipment and Machinery	150,860	201,205	20,394	44,336	171,254	245,541
Vehicles	67,280	112,048	43,984	59,484	111,264	171,532
Infrastructure						
Roads	664,362	681,918	0	0	664,362	681,918
Storm Sewers	1,600,074	1,645,239	0	0	1,600,074	1,645,239
Water Lines	0	0	3,167,255	3,259,236	3,167,255	3,259,236
Sewer Lines	0	0	2,601,823	2,309,110	2,601,823	2,309,110
Totals	<u>\$9,667,496</u>	<u>\$9,342,553</u>	<u>\$8,305,484</u>	<u>\$8,680,987</u>	<u>\$17,972,980</u>	<u>\$18,023,540</u>

Total capital assets for the City at December 31, 2011, were valued at \$17,972,980, which reflects a decrease of \$50,560 from the 2010 ending balance of \$18,023,540. The primary cause for this decrease in capital assets is due to a number of assets being removed from the capital asset listing due to no longer meeting the new capitalization threshold of \$5,000, which was previously set at \$1,500. See Note 11 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City as of December 31, 2011, was \$2,948,041. This balance reflects a decrease of \$438,927 from the previous year's balance of \$3,386,968, which is a decrease of 12.96 percent.

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Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$1,153,916	\$1,254,470	\$0	\$0	\$1,153,916	\$1,254,470
Water Bonds	0	0	568,320	738,658	568,320	738,658
OPWC Loans	0	0	1,225,805	1,367,875	1,225,805	1,367,875
Capital Lease	0	25,965	0	0	0	25,965
Totals	<u>\$1,153,916</u>	<u>\$1,280,435</u>	<u>\$1,794,125</u>	<u>\$2,106,533</u>	<u>\$2,948,041</u>	<u>\$3,386,968</u>

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

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

The OPWC Loans are comprised of seven separate, zero percent interest loans. The purpose of these loans are for the construction and improvement of various water and sewer projects, most notable is the Water Treatment Plant and Wellfield Expansion project. These loans will be repaid over a period of 30 years by user fees. The loans will be retired anywhere from 2015 to 2040.

See Note 12 in the financial statements for more information regarding the City's debt.

Current Financial Issues

Over the past seventeen years, income tax collections (on a cash basis) have increased from \$425,403 in 1993, to \$2,025,816 in 2011. This is largely attributed to the voter approved, four tenths of a percent increase that began in 2008. The Northwest Local School District became the City's largest employer in June 2008 through an annexation. The voter approval for one tenth of a percent income tax rate dedicated the levy to the Police Department. The remaining one and four tenths of a percent income tax rate is receipted into the general fund, from where it is distributed to various City departments and funds via transfers in the annual appropriation ordinances adopted by City Council. Transfers from the general fund to the various City departments and funds are used to support the City operations outside of the water and sewer utilities. The majority of the debt is for the City's water and sewer utilities, including bonds and zero percent interest OPWC loans, and will be repaid from user fees.

In 2011, the City completed the \$355,678 Marshallville Street sanitary sewer project. A \$188,705 American Recovery and Restoration Act (ARRA) grant, through OWDA in 2010, reimbursed the City for approximately half of the total cost of the project. The Marshallville Street sanitary sewer project is intended to foster and develop growth within the Route 21 Corridor. Large undeveloped parcels could eventually bring new commercial, industrial, business, and residential opportunities into the City.

In 2011, the City progressed with the High Street / Erie Avenue project with \$528,038 of the estimated \$1,174,340 costs being spent during 2011 and additional \$503,244 being spent in 2010. An OPWC grant is reimbursing the City for seventy-four percent of the project as expenses are incurred. Local match funding is provided by a \$91,715 CDBG grant through Stark County, Stark County Engineer reimbursement for the portion of the project outside of the City, and General Capital Projects fund balances. The High Street / Erie Avenue project is comprised of two phases. Phase I added turn lanes to

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Erie Avenue in front of the Northwest Local School District campus, in order to improve access and safety to the schools. Additionally, Phase I resurfaced High Street, which become Erie Avenue outside of the City limits, starting at Plum Creek to the road widening in front of the Northwest Local School District campus. Phase II is a culvert improvement along Plum Creek, which will address long standing drainage issues.

Contacting the City's Finance Department

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

**BASIC FINANCIAL
STATEMENTS**

City of Canal Fulton, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$1,302,783	\$871,820	\$2,174,603
Accounts Receivable	18,030	128,523	146,553
Internal Balances	150,000	(150,000)	0
Intergovernmental Receivable	269,256	32,654	301,910
Materials and Supplies Inventory	20,566	46	20,612
Income Taxes Receivable	582,551	0	582,551
Property Taxes Receivable	316,161	0	316,161
Deferred Charges	0	13,000	13,000
Nondepreciable Capital Assets	4,115,581	234,514	4,350,095
Depreciable Capital Assets, Net	5,551,915	8,070,970	13,622,885
<i>Total Assets</i>	<u>12,326,843</u>	<u>9,201,527</u>	<u>21,528,370</u>
Liabilities			
Accounts Payable	20,448	3,487	23,935
Accrued Wages	38,749	19,057	57,806
Intergovernmental Payable	72,208	24,608	96,816
Deferred Revenue	307,682	0	307,682
Vacation Benefits Payable	7,379	3,475	10,854
Accrued Interest Payable	4,545	7,098	11,643
Long-Term Liabilities:			
Due Within One Year	60,000	142,436	202,436
Due In More Than One Year	1,170,214	1,718,938	2,889,152
<i>Total Liabilities</i>	<u>1,681,225</u>	<u>1,919,099</u>	<u>3,600,324</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	8,522,496	6,527,679	15,050,175
Restricted for:			
Capital Projects	277,209	0	277,209
Street Repair and Maintenance	390,788	0	390,788
Police Protection	27,444	0	27,444
Other Purposes	21,524	0	21,524
Unclaimed Monies	2,731	0	2,731
Unrestricted	1,403,426	754,749	2,158,175
<i>Total Net Assets</i>	<u>\$10,645,618</u>	<u>\$7,282,428</u>	<u>\$17,928,046</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$699,287	\$39,013	\$825	\$0
Security of Persons and Property	1,544,127	106,513	32,812	0
Transportation	391,491	2,711	315,034	459,472
Leisure Time Activities	123,679	41,009	21	0
Interest and Fiscal Charges	58,840	0	0	0
<i>Total Governmental Activities</i>	<u>2,817,424</u>	<u>189,246</u>	<u>348,692</u>	<u>459,472</u>
Business-Type Activities:				
Water	700,984	655,213	0	0
Sewer	856,600	736,079	0	32,654
<i>Total Business-Type Activities</i>	<u>1,557,584</u>	<u>1,391,292</u>	<u>0</u>	<u>32,654</u>
<i>Total</i>	<u>\$4,375,008</u>	<u>\$1,580,538</u>	<u>\$348,692</u>	<u>\$492,126</u>

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

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

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$659,449)	\$0	(\$659,449)
(1,404,802)	0	(1,404,802)
385,726	0	385,726
(82,649)	0	(82,649)
(58,840)	0	(58,840)
<u>(1,820,014)</u>	<u>0</u>	<u>(1,820,014)</u>
0	(45,771)	(45,771)
0	(87,867)	(87,867)
<u>0</u>	<u>(133,638)</u>	<u>(133,638)</u>
<u>(1,820,014)</u>	<u>(133,638)</u>	<u>(1,953,652)</u>
194,529	0	194,529
93,374	0	93,374
1,999,600	0	1,999,600
136,525	0	136,525
307,238	0	307,238
102	0	102
75,290	1,372	76,662
<u>2,806,658</u>	<u>1,372</u>	<u>2,808,030</u>
<u>(60,000)</u>	<u>60,000</u>	<u>0</u>
<u>2,746,658</u>	<u>61,372</u>	<u>2,808,030</u>
926,644	(72,266)	854,378
<u>9,718,974</u>	<u>7,354,694</u>	<u>17,073,668</u>
<u>\$10,645,618</u>	<u>\$7,282,428</u>	<u>\$17,928,046</u>

City of Canal Fulton, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Street Maintenance	Police	Fire/ EMS	General Capital Projects
Assets					
Equity in Pooled Cash and Cash Equivalents	\$384,023	\$160,107	\$88,028	\$204,120	\$163,055
Accounts Receivable	3,106	0	0	14,924	0
Interfund Receivable	150,000	0	0	0	0
Intergovernmental Receivable	87,828	110,421	450	0	23,200
Income Taxes Receivable	543,426	0	39,125	0	0
Property Taxes Receivable	212,427	0	0	0	103,734
Materials and Supplies Inventory	0	20,427	0	139	0
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	2,731	0	0	0	0
<i>Total Assets</i>	<u>\$1,383,541</u>	<u>\$290,955</u>	<u>\$127,603</u>	<u>\$219,183</u>	<u>\$289,989</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$18,404	\$567	\$654	\$823	\$0
Accrued Wages	6,629	3,666	19,019	9,435	0
Intergovernmental Payable	8,720	4,170	51,440	7,521	0
Deferred Revenue	622,730	92,141	24,747	8,603	117,893
<i>Total Liabilities</i>	<u>656,483</u>	<u>100,544</u>	<u>95,860</u>	<u>26,382</u>	<u>117,893</u>
Fund Balances					
Nonspendable	2,731	20,427	0	139	0
Restricted	0	169,984	31,743	0	172,096
Committed	0	0	0	192,662	0
Assigned	1,943	0	0	0	0
Unassigned	722,384	0	0	0	0
<i>Total Fund Balances</i>	<u>727,058</u>	<u>190,411</u>	<u>31,743</u>	<u>192,801</u>	<u>172,096</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,383,541</u>	<u>\$290,955</u>	<u>\$127,603</u>	<u>\$219,183</u>	<u>\$289,989</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2011*

Other Governmental Funds	Total Governmental Funds	Total Governmental Fund Balances	\$1,621,510
		<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
		Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,667,496
\$300,719	\$1,300,052		
0	18,030		
0	150,000	Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds:	
47,357	269,256	Property Taxes	8,479
0	582,551	Income Taxes	361,771
0	316,161	Grants	219,897
0	20,566	Charges for Services	8,603
0	2,731	Total	598,750
\$348,076	\$2,659,347	Vacation benefits payable is a contractually required benefit not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(7,379)
		Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(4,545)
\$0	\$20,448		
0	38,749	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
357	72,208	General Obligation Bonds	(1,153,916)
40,318	906,432	Compensated Absences	(76,298)
40,675	1,037,837	Total	(1,230,214)
0	23,297	<i>Net Assets of Governmental Activities</i>	\$10,645,618
219,448	593,271		
47,903	240,565		
40,050	41,993		
0	722,384		
307,401	1,621,510		
\$348,076	\$2,659,347		

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Street Maintenance	Police	Fire/ EMS	General Capital Projects
Revenues					
Property Taxes	\$206,707	\$0	\$0	\$0	\$99,219
Income Taxes	1,900,832	0	132,910	0	0
Charges for Services	6,673	0	0	119,425	0
Fines, Licenses and Permits	36,027	0	650	0	0
Intergovernmental	274,452	227,899	25,603	1,046	469,044
Interest	94	6	0	0	0
Contributions and Donations	903	0	750	45	0
Other	43,638	3,014	9,738	392	17,340
<i>Total Revenues</i>	<u>2,469,326</u>	<u>230,919</u>	<u>169,651</u>	<u>120,908</u>	<u>585,603</u>
Expenditures					
Current:					
General Government	623,832	0	0	0	0
Security of Persons and Property	0	0	980,418	406,191	0
Transportation	15,994	220,747	0	0	0
Leisure Time Activities	44,433	0	0	0	0
Capital Outlay	0	0	0	0	674,387
Debt Service:					
Principal Retirement	0	0	0	0	85,965
Interest and Fiscal Charges	0	0	0	0	58,682
<i>Total Expenditures</i>	<u>684,259</u>	<u>220,747</u>	<u>980,418</u>	<u>406,191</u>	<u>819,034</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,785,067</u>	<u>10,172</u>	<u>(810,767)</u>	<u>(285,283)</u>	<u>(233,431)</u>
Other Financing Sources (Uses)					
Transfers In	0	40,000	778,446	350,000	100,000
Transfers Out	(1,380,446)	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,380,446)</u>	<u>40,000</u>	<u>778,446</u>	<u>350,000</u>	<u>100,000</u>
<i>Net Change in Fund Balances</i>	404,621	50,172	(32,321)	64,717	(133,431)
<i>Fund Balances Beginning of Year</i>	<u>322,437</u>	<u>140,239</u>	<u>64,064</u>	<u>128,084</u>	<u>305,527</u>
<i>Fund Balances End of Year</i>	<u>\$727,058</u>	<u>\$190,411</u>	<u>\$31,743</u>	<u>\$192,801</u>	<u>\$172,096</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$385,032
		<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
\$0	\$305,926	Governmental funds report capital outlay as an expenditure.	
0	2,033,742	However, in the statement of activities, the cost of those	
40,033	166,131	assets is allocated over their estimated useful lives as	
1,745	38,422	depreciation expense. This is the amount by which capital	
90,570	1,088,614	outlay exceeded depreciation in the current period.	
2	102	Capital Asset Additions	665,205
1,420	3,118	Current Year Depreciation	<u>(268,292)</u>
1,168	75,290		
<u>134,938</u>	<u>3,711,345</u>	Total	396,913
		Governmental funds only report the disposal of capital assets to the extent	
		proceeds are received from the sale. In the statement of activities, a	
0	623,832	gain or loss is reported for each disposal.	(71,970)
3,485	1,390,094		
67,278	304,019	Revenues in the statement of activities that do not provide	
39,118	83,551	current financial resources are not reported as revenues	
4,191	678,578	in the funds.	
		Property Taxes	(18,023)
39,917	125,882	Income Taxes	102,383
1,675	60,357	Grants	23,670
		Charges for Services	<u>(15,307)</u>
<u>155,664</u>	<u>3,266,313</u>	Total	92,723
<u>(20,726)</u>	<u>445,032</u>	Repayment of long-term obligations is an expenditure in the	
		governmental funds, but the repayment reduces	
59,930	1,328,376	long-term liabilities in the statement of net assets.	125,882
(7,930)	(1,388,376)		
		Some expenses reported in the statement of activities do not require	
<u>52,000</u>	<u>(60,000)</u>	the use of current financial resources and therefore are not	
		reported as expenditures in governmental funds.	
		Accrued Interest	880
31,274	385,032	Amortization of Premium on Bonds	<u>637</u>
<u>276,127</u>	<u>1,236,478</u>	Total	1,517
<u>\$307,401</u>	<u>\$1,621,510</u>	Some expenses reported in the statement of activities,	
		do not require the use of current financial resources	
		and therefore are not reported as expenditures	
		in governmental funds.	
		Compensated Absences	(8,788)
		Vacation Benefits Payable	<u>5,335</u>
		Total	<u>(3,453)</u>
		<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$926,644</u></u>

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$209,500	\$209,500	\$206,707	(\$2,793)
Income Taxes	1,685,746	1,815,746	1,890,762	75,016
Charges for Services	3,610	3,610	6,673	3,063
Fines, Licenses and Permits	32,700	32,700	36,145	3,445
Intergovernmental	303,068	303,068	299,343	(3,725)
Interest	5,000	5,000	94	(4,906)
Contributions and Donations	510	510	843	333
Other	4,341	256	19,559	19,303
<i>Total Revenues</i>	2,244,475	2,370,390	2,460,126	89,736
Expenditures				
Current:				
General Government	734,790	772,891	630,043	142,848
Transportation	16,000	16,000	15,994	6
Leisure Time Activities	55,682	57,157	42,920	14,237
<i>Total Expenditures</i>	806,472	846,048	688,957	157,091
<i>Excess of Revenues Over Expenditures</i>	1,438,003	1,524,342	1,771,169	246,827
Other Financing Uses				
Advances Out	(150,000)	(150,000)	(150,000)	0
Transfers Out	(1,528,742)	(1,380,446)	(1,380,446)	0
<i>Total Other Financing Uses</i>	(1,678,742)	(1,530,446)	(1,530,446)	0
<i>Net Change in Fund Balance</i>	(240,739)	(6,104)	240,723	246,827
<i>Fund Balance Beginning of Year</i>	97,406	97,406	97,406	0
Prior Year Encumbrances Appropriated	39,176	39,176	39,176	0
<i>Fund Balance (Deficit) End of Year</i>	(\$104,157)	\$130,478	\$377,305	\$246,827

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Intergovernmental	\$222,000	\$222,000	\$227,968	\$5,968
Interest	0	0	6	6
Other	2,000	2,000	3,014	1,014
<i>Total Revenues</i>	224,000	224,000	230,988	6,988
Expenditures				
Current:				
Transportation	296,810	281,010	221,090	59,920
<i>Excess of Revenues Over (Under) Expenditures</i>	(72,810)	(57,010)	9,898	66,908
Other Financing Sources				
Transfers In	50,000	40,000	40,000	0
<i>Net Change in Fund Balance</i>	(22,810)	(17,010)	49,898	66,908
<i>Fund Balance Beginning of Year</i>	98,093	98,093	98,093	0
Prior Year Encumbrances Appropriated	6,810	6,810	6,810	0
<i>Fund Balance End of Year</i>	<u>\$82,093</u>	<u>\$87,893</u>	<u>\$154,801</u>	<u>\$66,908</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$135,054	\$135,054	\$135,054	\$0
Fines, Licenses and Permits	950	950	650	(300)
Intergovernmental	15,100	15,100	26,104	11,004
Contributions and Donations	100	100	750	650
Other	7,100	7,100	9,738	2,638
<i>Total Revenues</i>	158,304	158,304	172,296	13,992
Expenditures				
Current:				
Security of Persons and Property	970,184	1,021,884	958,452	63,432
<i>Excess of Revenues Under Expenditures</i>	(811,880)	(863,580)	(786,156)	77,424
Other Financing Sources				
Transfers In	764,946	778,446	778,446	0
<i>Net Change in Fund Balance</i>	(46,934)	(85,134)	(7,710)	77,424
<i>Fund Balance Beginning of Year</i>	80,513	80,513	80,513	0
Prior Year Encumbrances Appropriated	14,668	14,668	14,668	0
<i>Fund Balance End of Year</i>	<u>\$48,247</u>	<u>\$10,047</u>	<u>\$87,471</u>	<u>\$77,424</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire/EMS Fund
For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Charges for Services	\$105,000	\$105,000	\$119,129	\$14,129
Intergovernmental	2,000	7,500	1,046	(6,454)
Contributions and Donations	50	50	45	(5)
Other	1,500	1,500	392	(1,108)
<i>Total Revenues</i>	108,550	114,050	120,612	6,562
Expenditures				
Current:				
Security of Persons and Property	492,618	500,018	424,765	75,253
<i>Excess of Revenues Under Expenditures</i>	(384,068)	(385,968)	(304,153)	81,815
Other Financing Sources				
Transfers In	350,000	350,000	350,000	0
<i>Net Change in Fund Balance</i>	(34,068)	(35,968)	45,847	81,815
<i>Fund Balance Beginning of Year</i>	135,099	135,099	135,099	0
Prior Year Encumbrances Appropriated	15,499	15,499	15,499	0
<i>Fund Balance End of Year</i>	<u>\$116,530</u>	<u>\$114,630</u>	<u>\$196,445</u>	<u>\$81,815</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio*Statement of Fund Net Assets**Proprietary Funds**December 31, 2011*

	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$241,794	\$630,026	\$871,820
Materials and Supplies Inventory	23	23	46
Accounts Receivable	66,316	62,207	128,523
Intergovernmental Receivable	0	32,654	32,654
<i>Total Current Assets</i>	<u>308,133</u>	<u>724,910</u>	<u>1,033,043</u>
<i>Noncurrent Assets:</i>			
Deferred Charges	13,000	0	13,000
Nondepreciable Capital Assets	67,800	166,714	234,514
Depreciable Capital Assets, Net	4,035,644	4,035,326	8,070,970
<i>Total Noncurrent Assets</i>	<u>4,116,444</u>	<u>4,202,040</u>	<u>8,318,484</u>
<i>Total Assets</i>	<u>4,424,577</u>	<u>4,926,950</u>	<u>9,351,527</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	1,180	2,307	3,487
Accrued Wages	10,719	8,338	19,057
Intergovernmental Payable	14,618	9,990	24,608
Interfund Payable	150,000	0	150,000
Vacation Benefits Payable	1,967	1,508	3,475
Accrued Interest Payable	7,098	0	7,098
General Obligation Bonds Payable	30,000	0	30,000
OPWC Loans Payable	68,893	43,543	112,436
<i>Total Current Liabilities</i>	<u>284,475</u>	<u>65,686</u>	<u>350,161</u>
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable	37,478	29,771	67,249
Bonds Payable	538,320	0	538,320
OPWC Loans Payable	616,613	496,756	1,113,369
<i>Total Long-Term Liabilities</i>	<u>1,192,411</u>	<u>526,527</u>	<u>1,718,938</u>
<i>Total Liabilities</i>	<u>1,476,886</u>	<u>592,213</u>	<u>2,069,099</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,865,938	3,661,741	6,527,679
Unrestricted	81,753	672,996	754,749
<i>Total Net Assets</i>	<u>\$2,947,691</u>	<u>\$4,334,737</u>	<u>\$7,282,428</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011*

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$655,213	\$736,079	\$1,391,292
Other	1,072	300	1,372
<i>Total Operating Revenues</i>	<u>656,285</u>	<u>736,379</u>	<u>1,392,664</u>
Operating Expenses			
Personal Services	284,531	250,598	535,129
Fringe Benefits	88,888	89,421	178,309
Contractual Services	94,836	257,316	352,152
Materials and Supplies	30,368	28,675	59,043
Depreciation	125,560	145,277	270,837
Other	1,460	119	1,579
<i>Total Operating Expenses</i>	<u>625,643</u>	<u>771,406</u>	<u>1,397,049</u>
<i>Operating Income (Loss)</i>	<u>30,642</u>	<u>(35,027)</u>	<u>(4,385)</u>
Non-Operating Expenses			
Interest and Fiscal Charges	(30,577)	0	(30,577)
Loss on Disposal of Assets	(44,764)	(85,194)	(129,958)
<i>Total Non-Operating Expenses</i>	<u>(75,341)</u>	<u>(85,194)</u>	<u>(160,535)</u>
<i>Loss before Capital Contributions and Transfers</i>	(44,699)	(120,221)	(164,920)
Capital Contributions	0	32,654	32,654
Transfers In	60,000	0	60,000
<i>Change in Net Assets</i>	15,301	(87,567)	(72,266)
<i>Net Assets Beginning of Year</i>	<u>2,932,390</u>	<u>4,422,304</u>	<u>7,354,694</u>
<i>Net Assets End of Year</i>	<u><u>\$2,947,691</u></u>	<u><u>\$4,334,737</u></u>	<u><u>\$7,282,428</u></u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$654,478	\$736,486	\$1,390,964
Other Cash Receipts	1,072	300	1,372
Cash Payments to Employees for Services	(375,261)	(345,322)	(720,583)
Cash Payments for Goods and Services	(128,330)	(297,516)	(425,846)
Other Cash Payments	(1,460)	(119)	(1,579)
<i>Net Cash Provided by Operating Activities</i>	<u>150,499</u>	<u>93,829</u>	<u>244,328</u>
Cash Flows from Capital and Related Financing Activities			
OPWC Loans Issued	0	22,705	22,705
Principal Paid on Bonds	(170,083)	0	(170,083)
Interest Paid on Bonds	(30,623)	0	(30,623)
Principal Paid on OPWC Loans	(103,339)	(61,436)	(164,775)
Payments for Capital Acquisitions	(1,653)	(23,639)	(25,292)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(305,698)</u>	<u>(62,370)</u>	<u>(368,068)</u>
Cash Flows from Noncapital Financing Activities			
Advances In	150,000	0	150,000
Transfer In	60,000	0	60,000
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>210,000</u>	<u>0</u>	<u>210,000</u>
<i>Net Increase in Cash and Cash Equivalents</i>	54,801	31,459	86,260
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>186,993</u>	<u>598,567</u>	<u>785,560</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$241,794</u>	<u>\$630,026</u>	<u>\$871,820</u>

(continued)

City of Canal Fulton, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2011

	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$30,642	(\$35,027)	(\$4,385)
Adjustments:			
Depreciation	125,560	145,277	270,837
(Increase) Decrease in Assets:			
Accounts Receivable	(735)	407	(328)
Materials and Supplies Inventory	(23)	(23)	(46)
Increase (Decrease) in Liabilities:			
Accounts Payable	(2,625)	(5,536)	(8,161)
Vacation Benefits Payable	(2,592)	(2,216)	(4,808)
Accrued Wages	(744)	(1,060)	(1,804)
Compensated Absences Payable	2,942	(185)	2,757
Intergovernmental Payable	(1,926)	(7,808)	(9,734)
<i>Net Cash Provided by Operating Activities</i>	<u>\$150,499</u>	<u>\$93,829</u>	<u>\$244,328</u>

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2011

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

See accompanying notes to the basic financial statements

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 1 – Description of the City and Reporting Entity

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

Reporting Entity

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

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

The City participates in the Stark County Regional Planning Commission, the Stark Council of Governments, and the Stark County District Board of Health as jointly governed organizations, the Local Organized Governments in Cooperation, which is defined as a joint venture, and the Northwest Stark Senior Citizens Commission and the Stark County Schools' Council of Governments, which are defined as related organizations. These organizations are presented in Notes 15, 16, and 17 to the basic financial statements.

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

Note 2 – Summary of Significant Accounting Policies

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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.

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

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

Fund Accounting

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

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

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

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

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

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

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

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

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

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

Measurement Focus

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Basis of Accounting

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

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Cash and Cash Equivalents

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2011 amounted to \$94, which includes \$65 assigned from other City funds.

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

Inventory

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

Restricted Assets

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

Capital Assets

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

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

Interfund Balances

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Since the City's policy limits the accrual of vacation time to one year from the employee's anniversary date, the outstanding liability is recorded as "vacation benefits payable" on the statement of net assets rather than as a long-term liability.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination payments and those the City has identified as probable of receiving payment in the future (those employees who will be eligible to receive termination payments after seven years of service). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after seven years of accumulated service.

Accrued Liabilities and Long-Term Obligations

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Fund Balance

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

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

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

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

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

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Net Assets

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

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

Operating Revenues and Expenses

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

Internal Activity

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

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

Bond Issuance Costs

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

Bond Premiums

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

Contributions of Capital

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

Estimates

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

Budgetary Process

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

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

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

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

Change in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” and Statement No. 59, “Financial Instruments Omnibus”.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City’s financial statements.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments and external investment pools. The implementation of this statement did not result in any change in the City’s financial statements.

Restatement of Prior Year Net Assets

During 2011, it was determined that governmental activities capital assets had been understated by \$475,040, due to \$488,153 of land not being included in the prior year, as well as \$13,113 of depreciated capital assets being removed due to no longer meeting the City’s new capitalization threshold of \$5,000. The restatement increased governmental activities net assets from \$9,243,934 to \$9,718,974 at December 31, 2010.

Note 4 – Compliance

Contrary to Ohio Revised Code Section 5705.39, the general fund and the water fund had original appropriations in excess of certified available resources by \$104,157 and \$49,185, respectively.

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

Note 5 – Budgetary Basis of Accounting

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

1. Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than restricted, committed, or assigned fund balance (GAAP).

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

Net Change in Fund Balance				
General and Major Special Revenue Funds				
	General	Street Maintenance	Police	Fire/EMS
GAAP Basis	\$404,621	\$50,172	(\$32,321)	\$64,717
Net Adjustment for Revenue Accruals	789	69	2,645	(296)
Net Adjustment for Expenditure Accruals	(5,238)	4,963	22,523	(10,899)
Advances Out	(150,000)	0	0	0
Encumbrances	(9,449)	(5,306)	(557)	(7,675)
Budget Basis	<u>\$240,723</u>	<u>\$49,898</u>	<u>(\$7,710)</u>	<u>\$45,847</u>

Note 6 – Deposits and Investments

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

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

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

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). At year end, the entire bank balance was covered by the FDIC insurance.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

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

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 7 – Receivables

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property taxes, intergovernmental receivables arising from entitlements and shared revenues and accounts (billings for utility service). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$3.70 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

	Assessed Value
Real Property	<u>\$94,343,790</u>
Public Utility Property	<u>1,139,010</u>
Total	<u><u>\$95,482,800</u></u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Canal Fulton. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the general and capital improvement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period are not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Income Taxes

The City levies a municipal income tax of 1.5 percent on substantially all earned income arising from employment, residency or business activities within the City. The City allows a credit of 50 percent for the income tax paid to another municipality to a maximum of half the total amount assessed.

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

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amount</u>
<i>Governmental Activities:</i>	
Gasoline Tax	\$110,421
Local Government	47,709
Homestead and Rollback	47,343
Permissive Motor Vehicle License Tax	38,367
Miscellaneous	16,011
Motor Vehicle License Tax	8,955
Police Grants	<u>450</u>
	269,256
 <i>Business-Type Activity:</i>	
County Sewage Reimbursement	<u>32,654</u>
Total	<u><u>\$301,910</u></u>

Note 8 – Interfund Transactions

Interfund Balances

Interfund balances at December 31, 2011, consist of an interfund receivable in the general fund of \$150,000 and an interfund payable in the water fund of \$150,000. The advance was made to cover water fund operating expenses.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Interfund Transfers

Interfund transfers for the year ended December 31, 2011, consisted of the following:

Transfer to	Transfer From		Total
	General	Other Governmental Funds	
<i>Major Funds:</i>			
Street Maintenance	\$40,000	\$0	\$40,000
Police	778,446	0	778,446
Fire/EMS	350,000	0	350,000
General Capital Projects	100,000	0	100,000
Water	60,000	0	60,000
<i>Total Major Funds</i>	1,328,446	0	1,328,446
Other Governmental Funds	52,000	7,930	59,930
Total	\$1,380,446	\$7,930	\$1,388,376

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

Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, the City contracted with The Ohio Municipal Joint Self Insurance Pool for various types of insurance. The coverage and deductible are as follows:

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

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

Note 10 – Other Employee Benefits

Compensated Absences

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

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

Medical and Dental Insurance

The City provides medical, dental, and vision benefits to employees through HomeTown Health, Humana, and Vision Service Plan, respectively. The City also provides \$25,000 of life insurance for employees through Lincoln Financial. The City's portion of monthly premiums for 2011 were \$1,132.37 for family, \$806.96 for employee and spouse, \$700.72 for employee and children, and \$378.52 for single.

Better rates with these insurers are achieved by group purchasing through the Stark County Schools' Council of Governments (See Note 17).

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 11 – Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Restated Balance <u>12/31/2010</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/2011</u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$3,023,152	\$0	\$0	\$3,023,152
Construction in Progress	503,244	589,185	0	1,092,429
Total Capital Assets not being depreciated	<u>3,526,396</u>	<u>589,185</u>	<u>0</u>	<u>4,115,581</u>
Capital Assets being depreciated:				
Buildings and Improvements	5,012,689	9,780	(23,417)	4,999,052
Equipment and Machinery	560,119	29,190	(137,072)	452,237
Vehicles	1,198,763	0	(1,700)	1,197,063
Infrastructure:				
Storm Sewers	3,585,785	0	(14,342)	3,571,443
Roads	929,551	37,050	(8,965)	957,636
Total Capital Assets being depreciated	<u>11,286,907</u>	<u>76,020</u>	<u>(185,496)</u>	<u>11,177,431</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,836,942)	(99,670)	6,899	(1,929,713)
Equipment and Machinery	(358,914)	(41,206)	98,743	(301,377)
Vehicles	(1,086,715)	(44,768)	1,700	(1,129,783)
Infrastructure:				
Storm Sewers	(1,940,546)	(34,766)	3,943	(1,971,369)
Roads	(247,633)	(47,882)	2,241	(293,274)
Total Accumulated Depreciation	<u>(5,470,750)</u>	<u>(268,292)*</u>	<u>113,526</u>	<u>(5,625,516)</u>
Total Capital Assets being Depreciated, net	<u>5,816,157</u>	<u>(192,272)</u>	<u>(71,970)</u>	<u>5,551,915</u>
Governmental Activities Capital Assets, Net	<u>\$9,342,553</u>	<u>\$396,913</u>	<u>(\$71,970)</u>	<u>\$9,667,496</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$55,391
Security of Persons and Property	126,951
Transportation	61,174
Leisure Time Activities	24,776
Total Depreciation Expense	<u>\$268,292</u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

	Restated Balance 12/31/2010	Additions	Deductions	Balance 12/31/2011
<i>Business-Type Activities:</i>				
Capital Assets not being depreciated:				
Land	\$313,600	\$3,000	(\$82,086)	\$234,514
Construction in Progress	341,681	13,997	(355,678)	0
Total Capital Assets not being depreciated	<u>655,281</u>	<u>16,997</u>	<u>(437,764)</u>	<u>234,514</u>
Capital Assets being depreciated:				
Buildings and Improvements	4,337,109	0	(30,878)	4,306,231
Equipment and Machinery	160,868	8,295	(80,966)	88,197
Vehicles	192,010	0	0	192,010
Infrastructure:				
Sewer Lines	4,661,291	355,678	(1,295)	5,015,674
Water Lines	6,143,640	0	(9,429)	6,134,211
Total Capital Assets being depreciated	<u>15,494,918</u>	<u>363,973</u>	<u>(122,568)</u>	<u>15,736,323</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(1,983,569)	(99,429)	14,281	(2,068,717)
Equipment and Machinery	(116,532)	(7,698)	56,427	(67,803)
Vehicles	(132,526)	(15,500)	0	(148,026)
Infrastructure:				
Sewer Lines	(2,352,181)	(62,741)	1,071	(2,413,851)
Water Lines	(2,884,404)	(85,469)	2,917	(2,966,956)
Total Accumulated Depreciation	<u>(7,469,212)</u>	<u>(270,837)</u>	<u>74,696</u>	<u>(7,665,353)</u>
Total Capital Assets, being depreciated, net	<u>8,025,706</u>	<u>93,136</u>	<u>(47,872)</u>	<u>8,070,970</u>
Business-Type Activities Capital Assets, Net	<u>\$8,680,987</u>	<u>\$110,133</u>	<u>(\$485,636)</u>	<u>\$8,305,484</u>

Note 12 – Long-Term Obligations

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
<i>Governmental Activities:</i>			
Downtown Improvement Bonds - 2001	2.6%-4.2%	\$380,000	December 1, 2011
Fire Station Bonds 1 - 2006	4.25-5	750,000	December 1, 2025
Fire Station Bonds 2 - 2006	4.25-5	750,000	December 1, 2025
<i>Business-Type Activities:</i>			
OPWC Canal Street Waterline Loan - 1995	0	123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2003	0	600,595	July 1, 2024
OPWC Denshire Sanitary Sewer Loan - 2003	0	417,195	July 1, 2022
OPWC Solids Handling Improvement Loan - 2003	0	376,100	January 1, 2023
OPWC Milan Street Waterline Loan - 2006	0	331,649	January 1, 2026
OPWC High Street Sanitary Sewer Loan - 2009	0	116,357	January 1, 2040
Water Treatment Plant Bonds - 2001	2.6-4.2	810,000	December 1, 2011
Water Plant Expansion Bonds - 2001	2.6-4.2	615,000	December 1, 2011
Northwest Waterline Bonds - 2005	3.0-4.5	730,000	March 15, 2025

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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

	Amount Outstanding 12/31/2010	Additions	Deletions	Amount Outstanding 12/31/2011	Amounts Due in One Year
<i>Governmental Activities:</i>					
<i>General Obligation Bonds</i>					
Downtown Improvement Bonds	\$39,917	\$0	\$39,917	\$0	\$0
Fire Station Bonds 1	605,000	0	30,000	575,000	30,000
Premium on Fire Station Bonds 1	6,752	0	450	6,302	0
Fire Station Bonds 2	600,000	0	30,000	570,000	30,000
Premium on Fire Station Bonds 2	2,801	0	187	2,614	0
Total General Obligation Bonds	<u>1,254,470</u>	<u>0</u>	<u>100,554</u>	<u>1,153,916</u>	<u>60,000</u>
Capital Lease	25,965	0	25,965	0	0
Compensated Absences	67,510	8,788	0	76,298	0
Total Governmental Activities	<u>\$1,347,945</u>	<u>\$8,788</u>	<u>\$126,519</u>	<u>\$1,230,214</u>	<u>\$60,000</u>
<i>Business-Type Activities:</i>					
<i>OPWC Loans</i>					
Canal Street Waterline	\$30,787	\$0	\$9,237	\$21,550	\$6,158
Market Street Waterline	80,613	0	24,184	56,429	16,123
Water Treatment Plant	420,415	0	45,045	375,370	30,030
Denshire Sanitary Sewer	250,315	0	31,290	219,025	20,860
Solids Handling Improvement	235,063	0	28,207	206,856	18,805
Milan Street Waterline	257,030	0	24,873	232,157	16,582
High Street Sanitary Sewer	93,652	22,705	1,939	114,418	3,878
Total OPWC Loans	<u>1,367,875</u>	<u>22,705</u>	<u>164,775</u>	<u>1,225,805</u>	<u>112,436</u>
<i>General Obligation Bonds</i>					
Water Treatment Plant Serial Bonds	85,083	0	85,083	0	0
Water Plant Expansion Serial Bonds	55,000	0	55,000	0	0
Northwest Waterline Bonds					
Serial Bonds	350,000	0	30,000	320,000	30,000
Term Bonds	245,000	0	0	245,000	0
Premium on Northwest Waterline Bonds	3,575	0	255	3,320	0
Total General Obligation Bonds	<u>738,658</u>	<u>0</u>	<u>170,338</u>	<u>568,320</u>	<u>30,000</u>
Compensated Absences	64,492	5,417	2,660	67,249	0
Total Business-Type Activities	<u>\$2,171,025</u>	<u>\$28,122</u>	<u>\$337,773</u>	<u>\$1,861,374</u>	<u>\$142,436</u>

The downtown improvement bonds are paid from the downtown improvement debt service fund, while the fire station bonds 1 and 2 and the capital lease are paid from the general capital projects fund.

The water treatment plant bonds and the water plant expansion bonds were issued in 2001 to improve and expand the City's water treatment plant. These bonds were retired during 2011. On March 15, 2005, the City issued \$730,000 of Water Improvement Bonds for the purpose of constructing a waterline for the Northwest Local School District. The bonds are subject to mandatory sinking fund redemption before maturity. Interest payments, at rates ranging from 3 percent to 4.5 percent per year are payable on March 15 and September 15 of each year, until the principal amount is paid.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City has pledged future water revenues net of expenditures to repay OPWC loans. These loans are payable solely from net revenues and are payable through 2026. Annual principal payments on these loans are expected to require less than 67 percent of net revenues and less than 16 percent of total revenues. The total principal remaining to be paid on the loans is \$685,506. Principal paid for the current year was \$103,339, total net revenues were \$156,202, and total revenues were \$656,285.

The City has pledged future sewer revenues net of expenditures to repay OPWC loans. These loans are payable solely from net revenues and are payable through 2040. Annual principal payments on these loans are expected to require less than 56 percent of net revenues and less than 9 percent of total revenues. The total principal remaining to be paid on the loans is \$540,299. Principal paid for the current year was \$61,436, total net revenues were \$110,250, and total revenues were \$736,379.

Redemption Provisions

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

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

The OPWC water and sewer loans are to finance various waterline and sanitary sewer projects in the City and will be paid from the water and sewer funds. The City has entered into a contractual agreement for an OPWC High Street Sanitary Sewer loan for up to \$223,871, which the City has received \$116,357 at year end 2011. Since the loan repayment schedule has not yet been finalized, a repayment schedule is not included in the schedule of debt service requirements.

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

As of December 31, 2011, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,355,744 and the unvoted legal debt margin was \$3,581,604.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2011, are as follows:

Year	Governmental Activities	
	General Obligation	
	Bonds	
	Principal	Interest
2012	\$60,000	\$55,300
2013	60,000	52,750
2014	70,000	50,200
2015	70,000	47,050
2016	70,000	42,575
2017-2021	415,000	164,575
2022-2025	400,000	53,750
Total	\$1,145,000	\$466,200

Year	Business-Type Activities				
	OPWC Loans	General Obligation Bonds			
		Principal	Serial		Term
		Principal	Interest	Principal	Interest
2012	\$108,558	\$30,000	\$23,612	\$0	\$0
2013	108,558	30,000	22,412	0	0
2014	108,558	35,000	21,112	0	0
2015	97,413	35,000	19,712	0	0
2016	86,277	35,000	18,312	0	0
2017-2021	431,385	155,000	57,597	45,000	10,013
2022-2026	170,638	0	0	200,000	18,673
Total	\$1,111,387	\$320,000	\$162,757	\$245,000	\$28,686

Note 13 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for State and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions. For the year ended December 31, 2011, members in State and local divisions contributed 10 percent of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans.

The City's 2011 contribution rate was 14 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$98,647, \$89,505, and \$94,114, respectively. For 2011, 86.07 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed plan for 2011 were \$4,911 made by the City and \$3,508 made by the plan members.

Ohio Police and Fire Pension Fund

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

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

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police was \$66,594 for the year ended December 31, 2011, \$58,727 for the year ended December 31, 2010, and \$70,422 for the year ended December 31, 2009. For 2011, 65.36 percent for police has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 14 – Postemployment Benefits

Ohio Public Employees Retirement System

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

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, State and local employers contributed at a rate of 14 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for the year.

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

The City’s contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$39,459, \$51,026, and \$68,052, respectively. For 2011, 86.07 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police was \$35,255 for the year ended December 31, 2011, \$31,091 for the year ended December 31, 2010, and \$37,282 for the year ended December 31, 2009. For 2011, 65.36 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 15 – Jointly Governed Organizations

Stark County Regional Planning Commission

The City participates in the Stark County Regional Planning Commission (Commission), which is a statutorily created political subdivision of the State. The commission is jointly governed among Stark County, and other cities, villages, and townships. Of the 48 member board, the City appoints one member. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short-term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2011, the City contributed \$548 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

Stark Council of Governments

The City participates in the Stark Council of Governments (the "Council") which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County and its municipalities and townships which direct the operations of the Stark County Metropolitan Narcotics Unit and the Stark County Crime Laboratory. Of the 27 members, the City has one appointed member. Each member's control over the operation of the Council is limited to its representation on the board. The board exercises total authority over the operation of the Council including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Council. The Council is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Council in 2011. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

Stark County District Board of Health

The City participates in the Stark County District Board of Health (the "Health District") which is a statutorily created political subdivision of the State. The Health District is jointly governed by Stark County townships, villages, the City of Canal Fulton, the City of Louisville, and the City of North Canton. Of the 7 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City contributed \$25,736 to the Health District in 2011. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

Note 16 – Joint Venture

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, Lawrence Township, City of Massillon, and Hills and Dales Village, with each participant providing one representative to serve on the board. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2011, the City made contributions of \$43,659, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, 2601 Cleveland Avenue, Canton, Ohio 44709.

Note 17 – Related Organizations

Northwest Stark Senior Citizens Commission

The eight members of the Commission are appointed by the Mayor of the City. The Commission administers its own staff and does not rely on the City to finance deficits. The City is not financially accountable for the Commission nor is the Commission financially dependent on the City. The Commission received a donation of \$2,970 from the City in 2011.

Stark County Schools' Council of Governments

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

Note 18 – Contingencies

Litigation

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

Grants

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 19 – Fund Balances

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

Fund Balances	General	Street Maintenance	Police	Fire/ EMS	General Capital Projects	Other Governmental Funds	Total
<u>Nonspendable:</u>							
Unclaimed Monies	\$2,731	\$0	\$0	\$0	\$0	\$0	\$2,731
Inventory	0	20,427	0	139	0	0	20,566
<i>Total Nonspendable</i>	<u>2,731</u>	<u>20,427</u>	<u>0</u>	<u>139</u>	<u>0</u>	<u>0</u>	<u>23,297</u>
<u>Restricted to:</u>							
Transportation	0	169,984	0	0	0	82,276	252,260
Public Safety	0	0	31,743	0	0	27,444	59,187
St. Helena II	0	0	0	0	0	21,524	21,524
Capital Improvements	0	0	0	0	172,096	88,204	260,300
<i>Total Restricted</i>	<u>0</u>	<u>169,984</u>	<u>31,743</u>	<u>0</u>	<u>172,096</u>	<u>219,448</u>	<u>593,271</u>
<u>Committed to:</u>							
Public Safety	0	0	0	192,662	0	0	192,662
Parks and Recreation	0	0	0	0	0	47,903	47,903
<i>Total Committed</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>192,662</u>	<u>0</u>	<u>47,903</u>	<u>240,565</u>
<u>Assigned to:</u>							
Debt Service	0	0	0	0	0	40,050	40,050
Other Purposes	1,943	0	0	0	0	0	1,943
<i>Total Assigned</i>	<u>1,943</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>40,050</u>	<u>41,993</u>
Unassigned	722,384	0	0	0	0	0	722,384
Total Fund Balances	<u><u>\$727,058</u></u>	<u><u>\$190,411</u></u>	<u><u>\$31,743</u></u>	<u><u>\$192,801</u></u>	<u><u>\$172,096</u></u>	<u><u>\$307,401</u></u>	<u><u>\$1,621,510</u></u>

City of Canal Fulton, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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Dave Yost • Auditor of State

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Fulton, Stark County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 27, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54 and restated the net assets of the governmental activities due to understatement in prior year capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item number 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 27, 2012.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

Dave Yost
Auditor of State

July 27, 2012

**CITY OF CANAL FULTON
STARK COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

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

FINDING NUMBER 2011-001

Finding For Recovery Repaid Under Audit – Overpayment

According to City Ordinance #31-06, adopted August 15, 2006, full-time employees may receive college tuition reimbursement up to \$2,500 per year for college courses related to their employment based upon the grade attained. According to City records, Scott Svab was paid tuition reimbursements on January 30, 2007 of \$2,500 and May 16, 2007 of \$1,556.

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 Scott Svab in the amount of \$1,556 and in favor of Canal Fulton City, General Fund in the amount of \$389, Sewer Operating Fund in the amount of \$583.50, and Water Operating Fund in the amount of \$583.50.

On July 13, 2012, Scott Svab repaid the City in the amount of \$1,556.

Officials' Response: In the future, if the administration deems an expenditure exceeding restrictions put in place by City Council to be appropriate and necessary, then the administration will seek and document the approval by City Council to vary from the previously established restrictions. The documentation of the approval by City Council will follow the hierarchy of legislative action; i.e. if the restriction was initial established by an ordinance, then an ordinance is necessary to change or vary from the restriction.

**CITY OF CANAL FULTON
STARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	<p>Material Weakness – Capital Assets: Land and Building & Improvements were overstated on the prior year financial statements due to the amounts being recorded twice. The City's Capital Asset Policy does not address the useful lives. No Asset Tag number or vehicle identification number was assigned to many of the City's vehicles & items of equipment. Numerous items of equipment were included on the asset listing for which the original cost was less than the City's capitalization threshold. 26.8% of capital assets were fully depreciated & still in use. Ten vehicles could not be verified as included on the City's property insurance policy due to a lack of adequate asset description on the capital asset listings, including vehicle vin number. Eight vehicles included on the City's capital asset listings were adequately described, including vin number, however, the vehicles could not be located on the City's property insurance policy listing. Depreciation expense was overstated due to posting depreciation expense twice for two of the City's assets</p>	Yes	Corrected
2010-002	<p>Ohio Rev. Code Section 5705.39 - Two funds had appropriations that exceeded estimated resources at year-end. In addition, appropriations of exceeded estimated resources of in the General Fund at the beginning of the year.</p>	No	Not corrected. See Management Letter



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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
AUGUST 14, 2012