

**CITY OF CANFIELD
MAHONING COUNTY, OHIO**

***BASIC
FINANCIAL STATEMENTS
(Audited)***

For The Year Ended
December 31, 2004

MS. SANDY MAYBERRY, FINANCE DIRECTOR



**Auditor of State
Betty Montgomery**

City Council
City of Canfield
104 Lisbon St.
Canfield, OH 44406

We have reviewed the *Independent Auditors' Report* of the City of Canfield, Mahoning County, prepared by Julian and Grube, Inc., for the audit period January 1, 2004 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Canfield is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 24, 2006

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CITY OF CANFIELD, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditors' Report

Members of Council and Mayor
City of Canfield
104 Lisbon Street
Canfield, OH 44406

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canfield, Mahoning County, Ohio, (the "City"), as of and for the year ended December 31, 2004, 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 obtain reasonable assurance about 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canfield, Mahoning County, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and major special revenue funds: street construction, maintenance and repair, and Mahoning valley law enforcement task force funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, for fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers".

Members of Council and Mayor
City of Canfield
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 16, 2006

CITY OF CANFIELD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of the City of Canfield's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$824,782. Net assets of governmental activities increased \$614,200 or 3.88% over 2003 and net assets of business-type activities increased \$210,582 or 1.43% over 2003.
- General revenues accounted for \$3,532,126 of total governmental activities revenue. Program specific revenues accounted for \$2,330,516 or 39.75% of total governmental activities revenue.
- The City had \$5,100,501 in expenses related to governmental activities; \$2,330,516 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,769,985 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$3,532,126.
- The general fund had revenues and other financing sources of \$3,107,122 in 2004. This represents an increase of \$261,731 from 2003. The expenditures and other financing uses of the general fund, which totaled \$2,766,620 in 2004, decreased \$209,841 from 2003. The net increase in fund balance for the general fund was \$340,502 or 18.71%.
- The street construction maintenance and repair fund had revenues and other financing sources of \$923,644 in 2004. The expenditures and other financing uses of the street construction maintenance and repair fund, totaled \$657,113 in 2004. The net increase in fund balance for the street construction maintenance and repair fund was \$266,531 or 75.80%.
- The Mahoning valley law enforcement task force fund had revenues of \$708,623 in 2004. The expenditures of the Mahoning valley law enforcement task force fund, totaled \$1,060,597 in 2004. The net decrease in fund balance for the Mahoning valley law enforcement task force fund was \$351,974 or 56.19%.
- The west main street safety upgrade project fund had revenues of \$512,396 in 2004. The expenditures of the west main street safety upgrade project fund, totaled \$946,530 in 2004. The net decrease in fund balance for the west main street safety upgrade project fund was \$434,134 or 179.06%.
- Net assets for the business-type activities, which are made up of the Sewer, Water and Storm Water enterprise funds, increased in 2004 by \$210,582. This increase in net assets was due primarily to decreasing expenses and increased revenues.
- In the general fund, the actual revenues and other financing sources came in \$235,919 higher than they were in the final budget and actual expenditures and other financing uses were \$160,211 less than the amount in the final budget. Budgeted expenditures were increased \$19,500 from the original to the final budget. Budgeted revenues were the same in the original and final budgets.

CITY OF CANFIELD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. 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 remains 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 as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water and storm water operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

CITY OF CANFIELD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, street construction maintenance and repair fund, Mahoning valley law enforcement task force fund and west main street safety upgrade project fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-29 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and storm water management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency and private-purpose trust funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 33-34 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-62 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF CANFIELD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The table below provides a summary of the City's net assets for 2004:

	Net Assets		
	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	2004 <u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 6,190,706	\$ 3,371,209	\$ 9,561,915
Capital assets	<u>14,024,670</u>	<u>13,304,308</u>	<u>27,328,978</u>
Total assets	<u>20,215,376</u>	<u>16,675,517</u>	<u>36,890,893</u>
<u>Liabilities</u>			
Long-term liabilities outstanding	2,629,750	1,600,583	4,230,333
Other liabilities	<u>1,128,751</u>	<u>186,693</u>	<u>1,315,444</u>
Total liabilities	<u>3,758,501</u>	<u>1,787,276</u>	<u>5,545,777</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	11,547,488	11,739,183	23,286,671
Restricted	2,579,635	-	2,579,635
Unrestricted	<u>2,329,752</u>	<u>3,149,058</u>	<u>5,478,810</u>
Total net assets	<u>\$ 16,456,875</u>	<u>\$ 14,888,241</u>	<u>\$ 31,345,116</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$31,345,116. At year-end, net assets were \$16,456,875 and \$14,888,241 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 74.08% of total assets. Capital assets include land, buildings, equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$11,547,488 and \$11,739,183 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$2,579,635, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$2,329,752 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

CITY OF CANFIELD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2004.

	Change in Net Assets		
	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	2004 <u>Total</u>
Revenues			
Program revenues:			
Charges for services	\$ 411,493	\$ 2,455,642	\$ 2,867,135
Operating grants and contributions	1,218,820	9,709	1,228,529
Capital grants and contributions	<u>700,203</u>	<u>-</u>	<u>700,203</u>
Total program revenues	<u>2,330,516</u>	<u>2,465,351</u>	<u>4,795,867</u>
General revenues:			
Property taxes	644,011	-	644,011
Income taxes	2,195,567	-	2,195,567
Unrestricted grants and entitlements	401,601	-	401,601
Increase in fair market value of investments	123,298	-	123,298
Investment earnings	88,965	-	88,965
Miscellaneous	<u>78,684</u>	<u>4,435</u>	<u>83,119</u>
Total general revenues	<u>3,532,126</u>	<u>4,435</u>	<u>3,536,561</u>
Total revenues	<u>5,862,642</u>	<u>2,469,786</u>	<u>8,332,428</u>
Expenses:			
General government	804,777	-	804,777
Security of persons and property	3,044,585	-	3,044,585
Public health and welfare	102,629	-	102,629
Transportation	854,372	-	854,372
Community environment	79,867	-	79,867
Leisure time activity	108,075	-	108,075
Other	1,512	-	1,512
Interest and fiscal charges	104,684	-	104,684
Sewer	-	1,175,665	1,175,665
Water	-	1,094,650	1,094,650
Storm Water	<u>-</u>	<u>136,830</u>	<u>136,830</u>
Total expenses	<u>5,100,501</u>	<u>2,407,145</u>	<u>7,507,646</u>
Increase in net assets before transfers	762,141	62,641	824,782
Transfers	<u>(147,941)</u>	<u>147,941</u>	<u>-</u>
Change in net assets	614,200	210,582	824,782
Net assets at beginning of year (restated)	<u>15,842,675</u>	<u>14,677,659</u>	<u>30,520,334</u>
Net assets at end of year	<u>\$ 16,456,875</u>	<u>\$ 14,888,241</u>	<u>\$ 31,345,116</u>

CITY OF CANFIELD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

Governmental activities net assets increased \$614,200 in 2004. This increase is a result of decreasing expenses and increasing revenues versus amounts reported in the prior year.

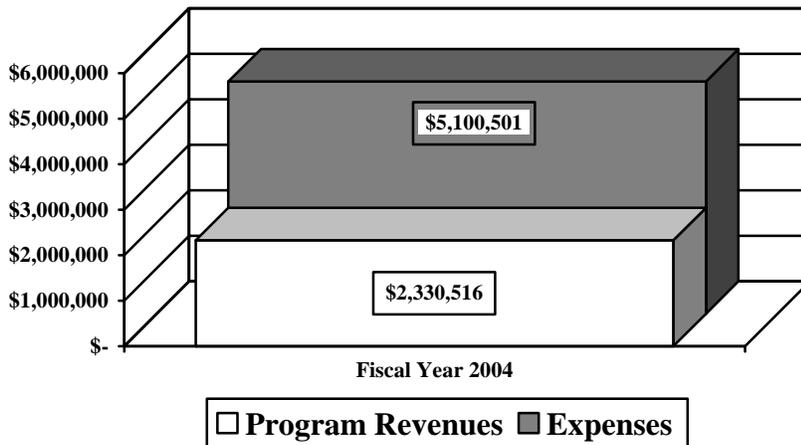
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$3,044,585 or 59.69% of the total expenses of the City. Security of persons and property expenses were partially funded by \$135,479 in direct charges to users of the services. General government expenses totaled \$804,777. General government expenses were partially funded by \$165,210 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$1,218,820 in operating grants and contributions and \$700,203 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total capital grants and contributions, \$700,203 subsidized transportation programs.

General revenues totaled \$3,532,126, and amounted to 60.25% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,839,578. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$401,601.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities, as program revenues are not sufficient to cover total governmental expenses for 2004. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF CANFIELD, OHIO

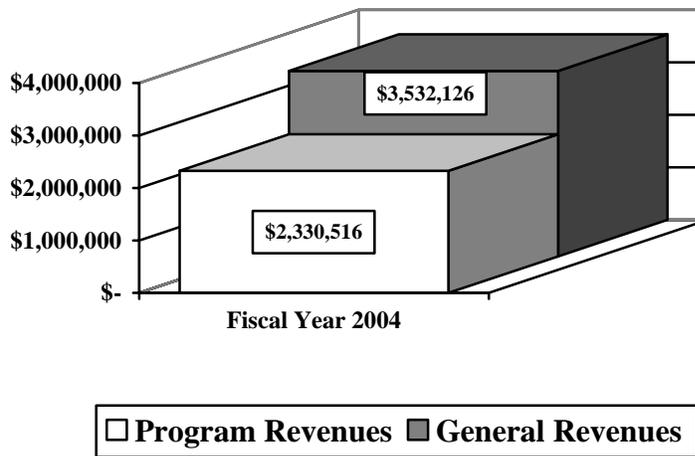
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:		
General government	\$ 804,777	\$ 639,567
Security of persons and property	3,044,585	2,195,218
Public health and welfare	102,629	88,229
Transportation	854,372	(373,391)
Community environment	79,867	20,583
Leisure time activity	108,075	93,583
Other	1,512	1,512
Interest and fiscal charges	<u>104,684</u>	<u>104,684</u>
 Total	 <u>\$ 5,100,501</u>	 <u>\$ 2,769,985</u>

The dependence upon general revenues for governmental activities is apparent, with 54.31% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2004.

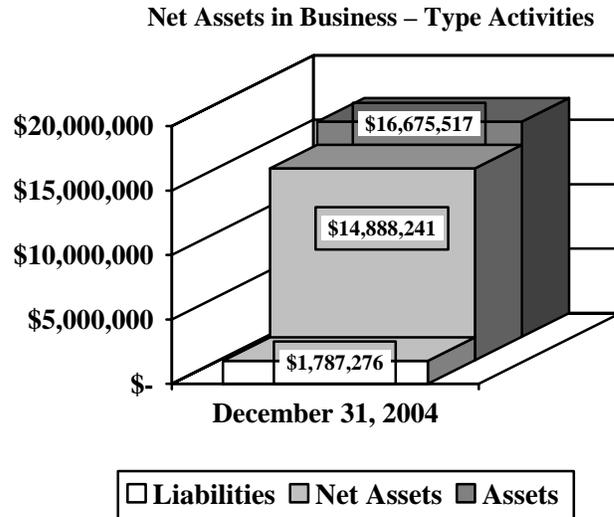
Governmental Activities – General and Program Revenues



CITY OF CANFIELD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Business-type Activities

Business-type activities include the sewer, water and storm water enterprise funds. These programs had program revenues of \$2,465,351, general revenues of \$4,435, transfers in of \$147,941 and expenses of \$2,407,145 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on pages 21-22) reported a combined fund balance of \$4,334,602 which is \$51,373 below last year's total of \$4,385,975 (as restated). The December 31, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and non-major governmental funds.

CITY OF CANFIELD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

	<u>Fund Balances</u> <u>12/31/04</u>	<u>Fund Balances</u> <u>12/31/03</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 2,160,536	\$ 1,820,034	\$ 340,502
Street construction maintenance and repair	618,148	351,617	266,531
Mahoning Valley law enforcement task force	274,374	626,348	(351,974)
West Main Street safety upgrade project	(191,680)	242,454	(434,134)
Other nonmajor governmental funds	<u>1,473,224</u>	<u>1,345,522</u>	<u>127,702</u>
Total	<u>\$ 4,334,602</u>	<u>\$ 4,385,975</u>	<u>\$ (51,373)</u>

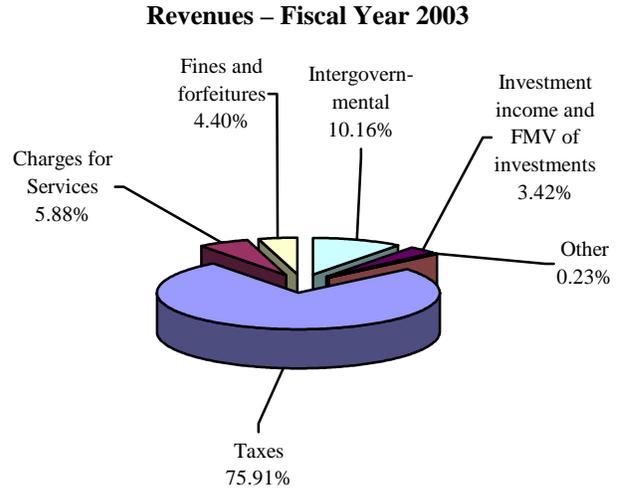
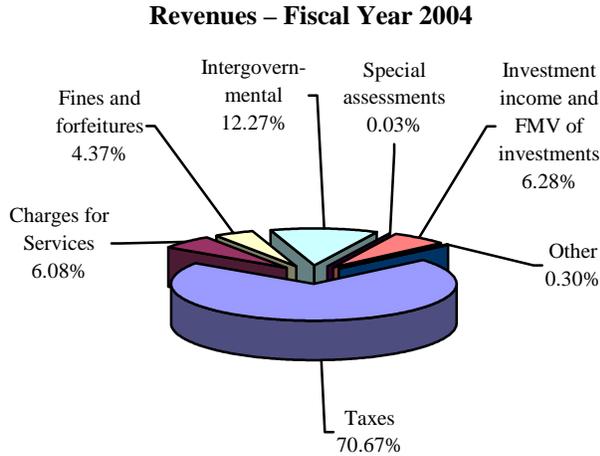
General Fund

The City's general fund balance increased \$340,502. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,193,205	\$ 2,156,457	1.70 %
Charges for services	188,666	168,178	12.18 %
Fines and forfeitures	135,506	125,131	8.29 %
Intergovernmental	380,929	288,655	31.97 %
Special assessments	976	-	100.00 %
Investment income	71,717	100,342	(28.53) %
Increase (decrease) in FMV of investments	123,298	(3,298)	3,838.57 %
Other	<u>9,323</u>	<u>6,556</u>	42.21 %
Total	<u>\$ 3,103,620</u>	<u>\$ 2,842,021</u>	9.20 %

Tax revenue represents 70.67% of all general fund revenue. Tax revenue increased 1.70% over prior year. The increase in intergovernmental revenue is due to an increase in the number of grants the City received. The increase in investment income and the fair market value of investments is due to the amount of funds in the City's investment portfolio throughout the year.

CITY OF CANFIELD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED



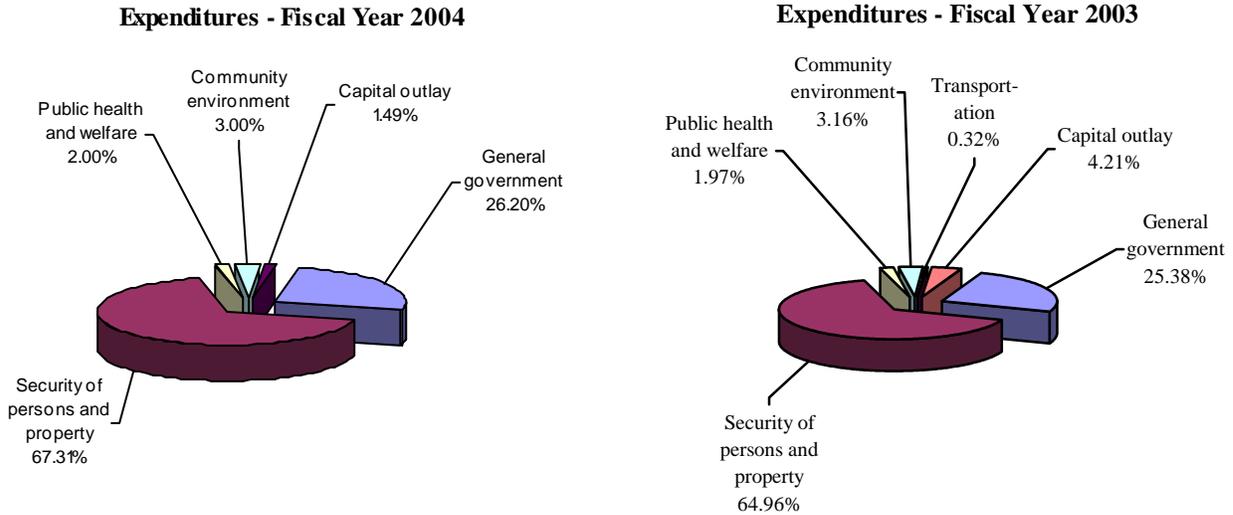
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 697,594	\$ 678,921	2.75
Security of persons and property	1,792,240	1,738,300	3.10
Public health and welfare	53,319	52,745	1.09
Community environment	79,783	84,452	(5.53)
Transportation	-	8,653	(100.00)
Capital outlay	<u>39,684</u>	<u>112,765</u>	(64.81)
Total	<u>\$ 2,662,620</u>	<u>\$ 2,675,836</u>	(0.49)

The City decreased total expenditures by 0.49%. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases.

CITY OF CANFIELD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED



Street Construction Maintenance and Repair Fund

The street construction maintenance and repair fund had revenues and other financing sources of \$923,644 in 2004. The expenditures and other financing uses of the street construction maintenance and repair fund, totaled \$657,113 in 2004. The net increase in fund balance for the street construction maintenance and repair fund was \$266,531 or 75.80%.

Mahoning Valley Law Enforcement Task Force Fund

The Mahoning valley law enforcement task force fund had revenues of \$708,623 in 2004. The expenditures of the Mahoning valley law enforcement task force fund, totaled \$1,060,597 in 2004. The net decrease in fund balance for the Mahoning valley law enforcement task force fund was \$351,974 or 56.19%.

West Main Street Safety Upgrade Project Fund

The west main street safety upgrade project fund had revenues of \$512,396 in 2004. The expenditures of the west main street safety upgrade project fund, totaled \$946,530 in 2004. The net decrease in fund balance for the west main street safety upgrade project fund was \$434,134 leaving a deficit balance of \$191,680.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, street construction maintenance and repair fund, and Mahoning valley law enforcement task force fund. In the general fund, the actual revenues and other financing sources came in \$235,919 higher than they were in the final budget and actual expenditures and other financing uses were \$160,211 less than the amount in the final budget. Budgeted expenditures were increased \$19,500 from the original to the final budget. Budgeted revenues were the same in the original and the final budget.

CITY OF CANFIELD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Proprietary Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. All of the City's enterprise funds are considered major funds. The Sewer fund had operating revenues of \$1,354,639 and operating expenses of \$1,148,866 for 2004. The Sewer fund net assets increased \$178,974 in 2004. The Water fund had operating revenues of \$928,293 and operating expenses of \$1,066,563 for 2004. The Water fund net assets decreased \$162,856 in 2004. The Storm Water fund had operating revenues of \$173,644 and operating expenses of \$136,830 for 2004. The Storm Water fund net assets increased \$194,464 in 2004.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City had \$27,328,978 (net of accumulated depreciation) invested in land, buildings, equipment, vehicles, infrastructure, and construction in progress (CIP). Of this total, \$14,024,670 was reported in governmental activities and \$13,304,308 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2004 balances compared to 2003:

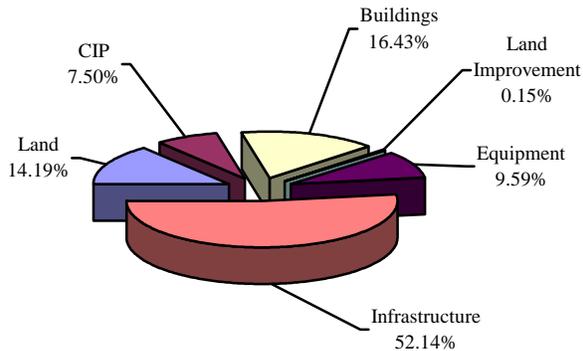
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 1,989,869	\$ 1,984,693	\$ 9,140	\$ 9,140	\$ 1,999,009	\$ 1,993,833
Construction in progress	1,051,803	1,030,591	213,171	707,515	1,264,974	1,738,106
Buildings	2,304,614	2,369,672	1,101,286	1,132,241	3,405,900	3,501,913
Land improvements	21,529	24,105	160,990	219,830	182,519	243,935
Equipment	1,345,376	1,408,734	-	-	1,345,376	1,408,734
Infrastructure	<u>7,311,479</u>	<u>6,717,774</u>	<u>11,819,721</u>	<u>11,308,351</u>	<u>19,131,200</u>	<u>18,026,125</u>
Totals	<u>\$ 14,024,670</u>	<u>\$ 13,535,569</u>	<u>\$ 13,304,308</u>	<u>\$ 13,377,077</u>	<u>\$ 27,328,978</u>	<u>\$ 26,912,646</u>

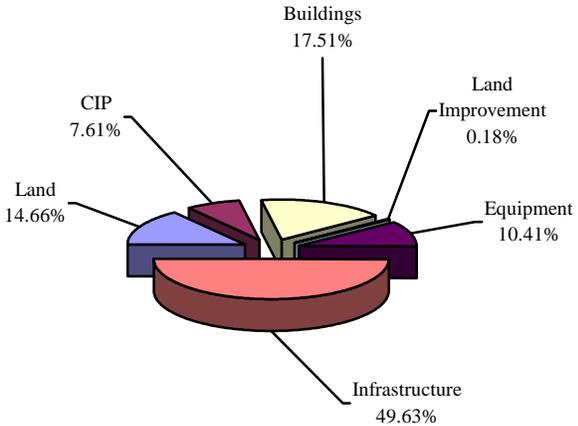
The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

CITY OF CANFIELD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Capital Assets - Governmental Activities 2004



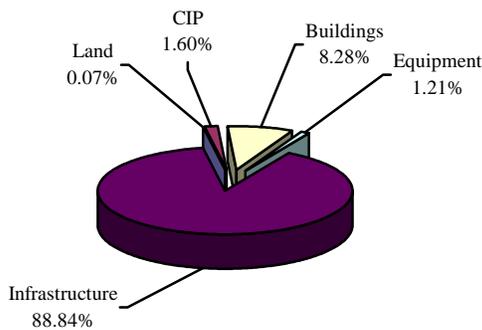
Capital Assets - Governmental Activities 2003



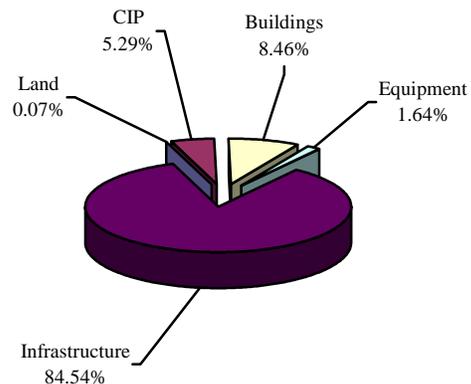
The City's infrastructure is the largest capital asset category. Infrastructure includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 52.14% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The City's largest business-type capital asset category is infrastructure, which include water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 88.84% of the City's total business-type capital assets.

CITY OF CANFIELD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

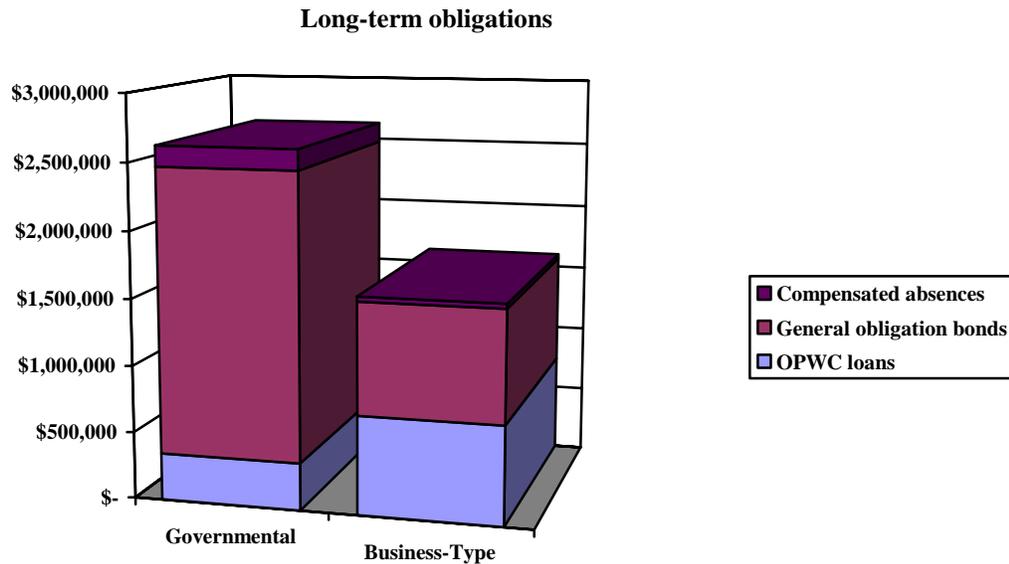
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	2004	2003
OPWC loans	\$ 352,182	\$ 387,613
General obligation bonds	2,125,000	2,312,500
Compensated absences	152,568	153,290
Total long-term obligations	\$2,629,750	\$2,853,403

	Business-type Activities	
	2004	2003
OPWC loans	\$ 737,125	\$ 649,954
General obligation bonds	828,000	930,500
Compensated absences	35,458	27,314
Total long-term obligations	\$1,600,583	\$1,607,768

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 11 to the financial statements.

CITY OF CANFIELD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Economic Conditions and Outlook

The City of Canfield continues to grow, thriving as a small and attractive planned community of approximately 7,500 residents. A comfortable and secure residential environment, combined with a healthy business community, enables the City to retain a strong financial standing with minimal debt.

Using revenues primarily generated from its 1.00% income tax, combined with aggressive and successful efforts to secure state and local grants, the city has been able to fund a capital improvements program. These funds have been used to maintain and improve an impressive municipal infrastructure, while continually improving the overall appearance and attractiveness of the community.

In addition to ongoing utility improvements, the City is in the process of improving the streetscapes via beautification of US 224 (Main Street), SR 62 and SR46 (Broad Street), as well as ongoing programs to maintain and improve other thoroughfares, parks and recreation amenities and the overall appearance of the City.

Even during the current economic downturn and without tapping its financial reserves, the City has been able to maintain its revenue base, increase productivity of its workforce, and control operating costs through effective management and the use of technology.

The City offers an attractive, and stable residential environment with above average property appreciation rates. Numerous parks, quality recreational facilities, reasonable utility and tax rates, a quality public safety force, excellent schools and an aggressive capital improvements program, have all positioned the city well to maintain and improve its image as a progressive and inviting community.

The City has enjoyed recognition such as being designated "Tree City U.S.A." since 1981 by the Arbor Day Foundation. This honor has been earned through the compliance in the preservation of planting of trees. In 1967, it also became known as one of the nation's twelve cleanest cities, another honor richly deserved through the diligence of City officials and residents. Most recently, in July of 2005, the City was among the list of top 100 places to live. Canfield is No. 82 on the annual list of the best places to live compiled by Money magazine and CNN/Money. The list's authors compared 1,300 towns to develop the rankings.

The list considered low crime rates, pollution and auto insurance rates, leisure activities, cultural options, affordable housing, commute time and access to quality health care. Canfield has an excellent low cost of living and [low cost] of housing. According to Money and CNN calculations, the average price of a home in Canfield is \$144,028, compared with the \$316,665 average in communities that made the list. The list's authors found that personal and property crime risks were well below the best places average, but the air pollution index is slightly higher than the national average.

Mayor Lee Frey pointed to quality schools, low cost of living and low crime as things that help the community stand out.

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Sandy Mayberry, Director of Finance, 104 Lisbon Street, Canfield, Ohio 44406.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF CANFIELD, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,604,372	\$ 2,772,376	\$ 6,376,748
Investments	313,573	-	313,573
Receivables (net of allowances for uncollectibles):			
Income taxes	581,229	-	581,229
Real and other taxes	560,172	-	560,172
Accounts	75,707	578,900	654,607
Special assessments	5,649	-	5,649
Due from other governments	986,220	-	986,220
Prepayments	63,784	19,933	83,717
Capital assets:			
Land and construction in progress	3,041,672	222,311	3,263,983
Depreciable capital assets, net	10,982,998	13,081,997	24,064,995
Total capital assets	<u>14,024,670</u>	<u>13,304,308</u>	<u>27,328,978</u>
Total assets	<u>20,215,376</u>	<u>16,675,517</u>	<u>36,890,893</u>
Liabilities:			
Accounts payable	95,434	9,100	104,534
Contracts payable	301,121	-	301,121
Accrued wages and benefits	75,965	11,138	87,103
Due to other governments	164,794	162,539	327,333
Deferred revenue	483,458	-	483,458
Accrued interest payable	7,979	3,916	11,895
Long-term liabilities:			
Due within one year	345,694	173,156	518,850
Due in more than one year	<u>2,284,056</u>	<u>1,427,427</u>	<u>3,711,483</u>
Total liabilities	<u>3,758,501</u>	<u>1,787,276</u>	<u>5,545,777</u>
Net assets:			
Invested in capital assets, net of related debt	11,547,488	11,739,183	23,286,671
Restricted for:			
Capital projects	156,261	-	156,261
Debt service	752,197	-	752,197
Security of persons and property	441,077	-	441,077
Public health	8,164	-	8,164
Transportation	870,734	-	870,734
Community environment	146,502	-	146,502
Other purposes	48,282	-	48,282
Perpetual care:			
Expendable	69,018	-	69,018
Nonexpendable	87,400	-	87,400
Unrestricted	<u>2,329,752</u>	<u>3,149,058</u>	<u>5,478,810</u>
Total net assets	<u>\$ 16,456,875</u>	<u>\$ 14,888,241</u>	<u>\$ 31,345,116</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 804,777	\$ 165,210	\$ -	\$ -
Security of persons and property.	3,044,585	135,479	713,888	-
Public health and welfare	102,629	14,400	-	-
Transportation	854,372	22,628	504,932	700,203
Community environment.	79,867	59,284	-	-
Leisure time activity.	108,075	14,492	-	-
Other.	1,512	-	-	-
Interest and fiscal charges	104,684	-	-	-
Total governmental activities	<u>5,100,501</u>	<u>411,493</u>	<u>1,218,820</u>	<u>700,203</u>
Business-type Activities:				
Sewer	1,175,665	1,354,629	-	-
Water	1,094,650	927,375	-	-
Storm Water	136,830	173,638	9,709	-
Total business-type activities	<u>2,407,145</u>	<u>2,455,642</u>	<u>9,709</u>	<u>-</u>
Total primary government.	<u>\$ 7,507,646</u>	<u>\$ 2,867,135</u>	<u>\$ 1,228,529</u>	<u>\$ 700,203</u>

General Revenues:

Property taxes levied for:	
Street construction, maintenance and repair	
Debt retirement	
Income taxes levied for:	
General purposes	
Grants and entitlements not restricted to specific programs	
Increase in fair market value of investments.	
Investment earnings	
Miscellaneous	
Total general revenues.	
Transfers.	
Change in net assets.	
Net assets at beginning of year (restated).	
Net assets at 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
\$ (639,567)	\$ -	\$ (639,567)
(2,195,218)	-	(2,195,218)
(88,229)	-	(88,229)
373,391	-	373,391
(20,583)	-	(20,583)
(93,583)	-	(93,583)
(1,512)	-	(1,512)
(104,684)	-	(104,684)
<u>(2,769,985)</u>	<u>-</u>	<u>(2,769,985)</u>
-	178,964	178,964
-	(167,275)	(167,275)
-	46,517	46,517
<u>-</u>	<u>58,206</u>	<u>58,206</u>
<u>(2,769,985)</u>	<u>58,206</u>	<u>(2,711,779)</u>
392,480	-	392,480
251,531	-	251,531
2,195,567	-	2,195,567
401,601	-	401,601
123,298	-	123,298
88,965	-	88,965
78,684	4,435	83,119
3,532,126	4,435	3,536,561
(147,941)	147,941	-
614,200	210,582	824,782
<u>15,842,675</u>	<u>14,677,659</u>	<u>30,520,334</u>
<u>\$ 16,456,875</u>	<u>\$ 14,888,241</u>	<u>\$ 31,345,116</u>

CITY OF CANFIELD, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Mahoning Valley Law Enforcement Task Force</u>	<u>West Main Street Safety Upgrade Project</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,645,389	\$ 149,337	\$ 353,336	\$ 13,045
Investments	313,573	-	-	-
Receivables (net of allowance for uncollectibles):				
Income taxes	581,229	-	-	-
Real and other taxes	-	420,150	-	-
Accounts	58,074	32	497	-
Interfund loans	82,033	411,585	-	-
Special assessments	-	-	-	-
Due from other governments	90,494	191,237	84,367	548,036
Prepayments	44,078	6,559	11,499	-
	<u>2,814,870</u>	<u>1,178,900</u>	<u>449,699</u>	<u>561,081</u>
Total assets	<u>\$ 2,814,870</u>	<u>\$ 1,178,900</u>	<u>\$ 449,699</u>	<u>\$ 561,081</u>
Liabilities:				
Accounts payable	\$ 57,876	\$ 4,749	\$ 20,566	\$ 12,000
Contracts payable	-	-	-	301,121
Accrued wages and benefits	62,037	11,359	-	-
Interfund loan payable	-	-	82,033	404,000
Due to other governments	128,868	13,586	16,044	-
Deferred revenue	405,553	531,058	56,682	35,640
	<u>654,334</u>	<u>560,752</u>	<u>175,325</u>	<u>752,761</u>
Total liabilities	<u>654,334</u>	<u>560,752</u>	<u>175,325</u>	<u>752,761</u>
Fund Balances (deficit):				
Reserved for encumbrances	149,753	28,443	54,735	-
Reserved for prepaids	44,078	6,559	11,499	-
Reserved for unclaimed monies	2,259	-	-	-
Reserved for perpetual care	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund	1,964,446	-	-	-
Special revenue funds	-	583,146	208,140	-
Debt service fund	-	-	-	-
Capital projects funds	-	-	-	(191,680)
Permanent fund	-	-	-	-
	<u>2,160,536</u>	<u>618,148</u>	<u>274,374</u>	<u>(191,680)</u>
Total fund balances (deficit)	<u>2,160,536</u>	<u>618,148</u>	<u>274,374</u>	<u>(191,680)</u>
Total liabilities and fund balances	<u>\$ 2,814,870</u>	<u>\$ 1,178,900</u>	<u>\$ 449,699</u>	<u>\$ 561,081</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 1,443,265	\$ 3,604,372
-	313,573
-	581,229
140,022	560,172
17,104	75,707
-	493,618
5,649	5,649
72,086	986,220
1,648	63,784
<u>\$ 1,679,774</u>	<u>\$ 6,684,324</u>
\$ 243	\$ 95,434
	301,121
2,569	75,965
7,585	493,618
6,296	164,794
189,857	1,218,790
<u>206,550</u>	<u>2,349,722</u>
29,652	262,583
1,648	63,784
-	2,259
87,400	87,400
-	1,964,446
385,921	1,177,207
751,802	751,802
147,783	(43,897)
69,018	69,018
<u>1,473,224</u>	<u>4,334,602</u>
<u>\$ 1,679,774</u>	<u>\$ 6,684,324</u>

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CITY OF CANFIELD, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 4,334,602
<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.		14,024,670
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 319,600	
Real and other taxes	57,714	
Charges for services	909	
Special assessments	5,649	
Intergovernmental revenues	349,778	
Other	<u>1,682</u>	
Total		735,332
In the statement of activities interest is accrued on outstanding bonds, notes and loans payable, whereas in governmental funds, interest expenditures are reported when due.		(7,979)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(152,568)	
General obligation bonds payable	(2,125,000)	
OPWC loans payable	<u>(352,182)</u>	
Total		<u>(2,629,750)</u>
Net assets of governmental activities		<u><u>\$ 16,456,875</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Mahoning Valley Law Enforcement Task Force</u>	<u>West Main Street Safety Upgrade Project</u>
Revenues:				
Income taxes	\$ 2,193,205	\$ -	\$ -	\$ -
Real and other taxes	-	389,496	-	-
Other local taxes		67,262		
Charges for services	188,666	-	-	-
Licenses and permits	85,433	-	-	-
Fines and forfeitures	50,073	-	530	-
Intergovernmental	380,929	401,275	684,064	512,396
Special assessments	976	-	-	-
Investment income	71,717	4,853	7,058	-
Increase in FMV of investments	123,298	-	-	-
Other	9,323	595	5,637	-
Total revenues	<u>3,103,620</u>	<u>863,481</u>	<u>697,289</u>	<u>512,396</u>
Expenditures:				
Current:				
General government	697,594	-	-	-
Security of persons and property	1,792,240	-	947,750	-
Public health and welfare	53,319	-	-	-
Transportation	-	607,569	-	-
Community environment	79,783	-	-	-
Leisure time activity	-	-	-	-
Other	-	-	-	-
Capital outlay	39,684	37,744	112,847	946,530
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>2,662,620</u>	<u>645,313</u>	<u>1,060,597</u>	<u>946,530</u>
Excess (deficiency) of revenues over (under) expenditures	<u>441,000</u>	<u>218,168</u>	<u>(363,308)</u>	<u>(434,134)</u>
Other financing sources (uses):				
Sale of capital assets	3,502	-	11,334	-
Transfers in	-	60,163	-	-
Transfers out	<u>(104,000)</u>	<u>(11,800)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(100,498)</u>	<u>48,363</u>	<u>11,334</u>	<u>-</u>
Net change in fund balances	340,502	266,531	(351,974)	(434,134)
Fund balances at beginning of year (restated) .	<u>1,820,034</u>	<u>351,617</u>	<u>626,348</u>	<u>242,454</u>
Fund balances (deficit) at end of year	<u>\$ 2,160,536</u>	<u>\$ 618,148</u>	<u>\$ 274,374</u>	<u>\$ (191,680)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,193,205
249,973	639,469
	67,262
39,759	228,425
-	85,433
1,291	51,894
352,971	2,331,635
23,354	24,330
5,333	88,961
-	123,298
46,790	62,345
<u>719,471</u>	<u>5,896,257</u>
22,916	720,510
60,370	2,800,360
24,354	77,673
43,667	651,236
-	79,783
86,159	86,159
1,512	1,512
79,543	1,216,348
222,931	222,931
105,954	105,954
<u>647,406</u>	<u>5,962,466</u>
<u>72,065</u>	<u>(66,209)</u>
-	14,836
115,800	175,963
<u>(60,163)</u>	<u>(175,963)</u>
<u>55,637</u>	<u>14,836</u>
127,702	(51,373)
1,345,522	4,385,975
<u>\$ 1,473,224</u>	<u>\$ 4,334,602</u>

CITY OF CANFIELD, 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, 2004

Net change in fund balances - total governmental funds \$ (51,373)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital asset additions	1,087,699	
Current year depreciation	(559,782)	
Total		527,917

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (38,816)

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

Income taxes	\$ 2,362	
Real and other taxes	4,542	
Charges for services	909	
Fines and forfeitures	(40,544)	
Special assessments	(726)	
Intergovernmental revenues	(16,676)	
Other	1,682	
Total		(48,451)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 222,931

In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due. 1,270

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 722

Change in net assets of governmental activities \$ 614,200

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 2,071,000	\$ 2,106,500	\$ 2,237,866	\$ 131,366
Charges for services	10,913	5,913	6,498	585
Licenses and permits	83,940	83,940	85,433	1,493
Fines and forfeitures	48,925	48,925	49,945	1,020
Intergovernmental	277,000	277,000	373,403	96,403
Special assessments	-	-	976	976
Investment income	100,000	70,000	71,717	1,717
Other	397,439	397,439	191,196	(206,243)
Total revenues.	<u>2,989,217</u>	<u>2,989,717</u>	<u>3,017,034</u>	<u>27,317</u>
Expenditures:				
Current:				
General government	842,891	846,891	737,992	108,899
Security of persons and property	2,024,977	2,028,477	1,938,341	90,136
Public health and welfare	107,761	107,761	105,992	1,769
Community environment	100,915	100,915	93,395	7,520
Other	43,635	43,635	27,614	16,021
Capital outlay	51,014	62,814	44,915	17,899
Total expenditures	<u>3,171,193</u>	<u>3,190,493</u>	<u>2,948,249</u>	<u>242,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(181,976)</u>	<u>(200,776)</u>	<u>68,785</u>	<u>269,561</u>
Other financing sources (uses):				
Sale of capital assets	4,000	3,500	3,502	2
Advance in	-	-	208,600	208,600
Advance out	-	-	(82,033)	(82,033)
Transfers out	(103,800)	(104,000)	(104,000)	-
Total other financing sources (uses)	<u>(99,800)</u>	<u>(100,500)</u>	<u>26,069</u>	<u>126,569</u>
Net change in fund balance	(281,776)	(301,276)	94,854	396,130
Fund balance at beginning of year	1,058,402	1,058,402	1,058,402	-
Prior year encumbrances appropriated.	274,883	274,883	274,883	-
Fund balance at end of year	<u>\$ 1,051,509</u>	<u>\$ 1,032,009</u>	<u>\$ 1,428,139</u>	<u>\$ 396,130</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 STREET CONSTRUCTION, MAINTENANCE AND REPAIR
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 445,498	\$ 449,498	\$ 452,091	\$ 2,593
Other local taxes	63,683	66,884	67,262	378
Intergovernmental.	270,658	311,294	312,385	1,091
Investment income	12,800	4,800	4,853	53
Other	-	-	594	594
Total revenues.	<u>792,639</u>	<u>832,476</u>	<u>837,185</u>	<u>4,709</u>
Expenditures:				
Current:				
Transportation	736,863	739,863	640,122	99,741
Capital outlay	51,621	74,921	66,863	8,058
Total expenditures	<u>788,484</u>	<u>814,784</u>	<u>706,985</u>	<u>107,799</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>4,155</u>	<u>17,692</u>	<u>130,200</u>	<u>112,508</u>
Other financing sources (uses):				
Transfers in.	-	60,163	60,163	-
Transfers out	(11,800)	(11,800)	(11,800)	-
Advances in	-	-	48,174	48,174
Advances out	-	-	(411,585)	(411,585)
Sale of capital assets	-	-	1	1
Total other financing sources (uses)	<u>(11,800)</u>	<u>48,363</u>	<u>(315,047)</u>	<u>(363,410)</u>
Net change in fund balance	(7,645)	66,055	(184,847)	(250,902)
Fund balance at beginning of year	226,750	226,750	226,750	-
Prior year encumbrances appropriated	71,489	71,489	71,489	-
Fund balance at end of year	<u>\$ 290,594</u>	<u>\$ 364,294</u>	<u>\$ 113,392</u>	<u>\$ (250,902)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 MAHONING VALLEY LAW ENFORCEMENT TASK FORCE
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines and forfeitures	\$ -	\$ -	\$ 531	\$ 531
Intergovernmental	1,187,074	1,300,174	1,207,871	(92,303)
Investment income	-	104	7,058	6,954
Other	-	13,050	14,183	1,133
Total revenues	<u>1,187,074</u>	<u>1,313,328</u>	<u>1,229,643</u>	<u>(83,685)</u>
Expenditures:				
Current:				
Security of persons and property	514,813	1,138,563	1,036,170	102,393
Capital outlay	<u>101,601</u>	<u>220,501</u>	<u>154,732</u>	<u>65,769</u>
Total expenditures	<u>616,414</u>	<u>1,359,064</u>	<u>1,190,902</u>	<u>168,162</u>
Excess (deficiency) of revenues over (under) expenditures	<u>570,660</u>	<u>(45,736)</u>	<u>38,741</u>	<u>84,477</u>
Other financing sources (uses):				
Advances in	-	-	82,033	82,033
Advances out	-	-	(178,500)	(178,500)
Transfers in	100,975	100,871	100,871	-
Transfers out	(107,225)	(100,975)	(100,871)	104
Sale of capital assets	-	-	11,334	11,334
Total other financing sources (uses)	<u>(6,250)</u>	<u>(104)</u>	<u>(85,133)</u>	<u>(85,029)</u>
Net change in fund balance	564,410	(45,840)	(46,392)	(552)
Fund balance at beginning of year	227,632	227,632	227,632	-
Prior year encumbrances appropriated	<u>80,751</u>	<u>80,751</u>	<u>80,751</u>	<u>-</u>
Fund balance at end of year	<u>\$ 872,793</u>	<u>\$ 262,543</u>	<u>\$ 261,991</u>	<u>\$ (552)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities -Enterprise Funds			
	Sewer	Water	Storm Water	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents.	\$ 397,248	\$ 2,125,171	\$ 249,957	\$ 2,772,376
Receivables (net of allowance for uncollectibles):				
Accounts	326,989	207,175	44,736	578,900
Prepayments.	7,191	12,023	719	19,933
Total current assets	<u>731,428</u>	<u>2,344,369</u>	<u>295,412</u>	<u>3,371,209</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	4,490	5,489	212,332	222,311
Depreciable capital assets, net	4,479,889	5,594,362	3,007,746	13,081,997
Total capital assets	<u>4,484,379</u>	<u>5,599,851</u>	<u>3,220,078</u>	<u>13,304,308</u>
Total noncurrent assets	<u>4,484,379</u>	<u>5,599,851</u>	<u>3,220,078</u>	<u>13,304,308</u>
Total assets	<u>5,215,807</u>	<u>7,944,220</u>	<u>3,515,490</u>	<u>16,675,517</u>
Liabilities:				
Current liabilities:				
Accounts payable.	5,377	308	3,415	9,100
Accrued wages and benefits	6,138	4,105	895	11,138
Compensated absences	9,413	16,276	1,801	27,490
Due to other governments	64,671	96,487	1,381	162,539
Current portion of general obligation bonds	54,000	50,500	-	104,500
Current portion of OPWC loans	41,166	-	-	41,166
Accrued interest payable	1,775	2,141	-	3,916
Total current liabilities	<u>182,540</u>	<u>169,817</u>	<u>7,492</u>	<u>359,849</u>
Long-term liabilities:				
General obligation bonds	345,000	378,500	-	723,500
OPWC loans	695,959	-	-	695,959
Compensated absences.	7,968	-	-	7,968
Total long-term liabilities.	<u>1,048,927</u>	<u>378,500</u>	<u>-</u>	<u>1,427,427</u>
Total liabilities	<u>1,231,467</u>	<u>548,317</u>	<u>7,492</u>	<u>1,787,276</u>
Net assets:				
Invested in capital assets, net of related debt. . . .	3,348,254	5,170,851	3,220,078	11,739,183
Unrestricted	636,086	2,225,052	287,920	3,149,058
Total net assets	<u>\$ 3,984,340</u>	<u>\$ 7,395,903</u>	<u>\$ 3,507,998</u>	<u>\$ 14,888,241</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Operating revenues:				
Charges for services	\$ 1,354,629	\$ 927,375	\$ 173,638	\$ 2,455,642
Other	10	918	6	934
Total operating revenues.	<u>1,354,639</u>	<u>928,293</u>	<u>173,644</u>	<u>2,456,576</u>
Operating expenses:				
Personal services	171,731	189,450	26,794	387,975
Contract services	753,743	550,431	12,640	1,316,814
Materials and supplies	4,929	10,969	4,381	20,279
Other	84,874	58,047	10,000	152,921
Depreciation	<u>133,589</u>	<u>257,666</u>	<u>83,015</u>	<u>474,270</u>
Total operating expenses.	<u>1,148,866</u>	<u>1,066,563</u>	<u>136,830</u>	<u>2,352,259</u>
Operating income (loss)	<u>205,773</u>	<u>(138,270)</u>	<u>36,814</u>	<u>104,317</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(26,799)	(28,087)	-	(54,886)
Intergovernmental	-	-	9,709	9,709
Gain on disposal of assets	-	3,501	-	3,501
Total nonoperating revenues (expenses)	<u>(26,799)</u>	<u>(24,586)</u>	<u>9,709</u>	<u>(41,676)</u>
Income (loss) before capital contributions	178,974	(162,856)	46,523	62,641
Capital contributions	<u>-</u>	<u>-</u>	<u>147,941</u>	<u>147,941</u>
Changes in net assets	178,974	(162,856)	194,464	210,582
Net assets at beginning of year	<u>3,805,366</u>	<u>7,558,759</u>	<u>3,313,534</u>	<u>14,677,659</u>
Net assets at end of year.	<u><u>\$ 3,984,340</u></u>	<u><u>\$ 7,395,903</u></u>	<u><u>\$ 3,507,998</u></u>	<u><u>\$ 14,888,241</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Storm Water</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 1,217,120	\$ 843,386	\$ 157,214	\$ 2,217,720
Cash received from other operations	10	893	2	905
Cash payments for personal services	(162,737)	(178,672)	(25,704)	(367,113)
Cash payments for contract services.	(761,626)	(557,181)	(38,350)	(1,357,157)
Cash payments for materials and supplies.	(4,891)	(10,931)	(4,381)	(20,203)
Cash payments for other expenses	(84,874)	(58,497)	(10,000)	(153,371)
	<u>203,002</u>	<u>38,998</u>	<u>78,781</u>	<u>320,781</u>
Net cash provided by operating activities.				
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(299,578)	(50,793)	(53,264)	(403,635)
Gain on disposal of assets	-	3,501	-	3,501
Principal retirement.	(93,166)	(50,500)	-	(143,666)
Interest and fiscal charges.	(25,891)	(25,946)	-	(51,837)
Proceeds of loans.	128,337	-	-	128,337
Intergovernmental	-	-	9,709	9,709
	<u>(290,298)</u>	<u>(123,738)</u>	<u>(43,555)</u>	<u>(457,591)</u>
Net cash used in capital and related financing activities				
Net increase (decrease) in cash and cash equivalents	<u>(87,296)</u>	<u>(84,740)</u>	<u>35,226</u>	<u>(136,810)</u>
Cash and cash equivalents at beginning of year	484,544	2,209,911	214,731	2,909,186
Cash and cash equivalents at end of year	<u>\$ 397,248</u>	<u>\$ 2,125,171</u>	<u>\$ 249,957</u>	<u>\$ 2,772,376</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss).	\$ 205,773	\$ (138,270)	\$ 36,814	\$ 104,317
Adjustments:				
Depreciation	133,589	257,666	83,015	474,270
Changes in assets and liabilities:				
Decrease in materials and supplies inventory.	-	3,640	-	3,640
Increase in accounts receivable.	(137,509)	(84,014)	(16,427)	(237,950)
Increase in prepayments	(7,191)	(12,023)	(719)	(19,933)
Decrease in accounts payable.	(52,835)	(82,421)	(24,306)	(159,562)
Increase (decrease) in accrued wages and benefits	1,244	(1,034)	38	248
Increase in due to other governments.	57,999	89,401	207	147,607
Increase in compensated absences payable	1,932	6,053	159	8,144
Net cash provided by operating activities	<u>\$ 203,002</u>	<u>\$ 38,998</u>	<u>\$ 78,781</u>	<u>\$ 320,781</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 DECEMBER 31, 2004

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 27,855	\$ 66,106
Receivables:		
Real and other taxes.	-	-
Due from other governments	-	-
	<u>27,855</u>	<u>66,106</u>
Total assets.	<u>27,855</u>	<u>\$ 66,106</u>
Liabilities:		
Deposits held and due to others.	\$ -	\$ 66,106
	<u>-</u>	<u>66,106</u>
Total liabilities	<u>-</u>	<u>\$ 66,106</u>
Net assets:		
Held in trust for other purposes	<u>27,855</u>	
Total net assets	<u>\$ 27,855</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANFIELD, OHIO

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

	<u>Private Purpose Trust</u>
Net assets at beginning of year	\$ 27,855
Net assets at end of year	<u>\$ 27,855</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY

The City of Canfield (the "City") was incorporated under the laws of the State of Ohio in 1852, and adopted its first charter in 1968. The form of government provided in this Charter is known as the "Council-Manager Plan." The Charter provides for a council of five members consisting of the Mayor and four other persons elected from the City at large. All members of the Council are elected for overlapping terms of four years. The Mayor does not serve as President of the Council and does not have any veto power over the actions of the Council.

The Manager is appointed by the Council and is the chief executive, administrative and law enforcement officer of the City. The Director of Finance is appointed by the Manager, approval of Council. The Director of Finance is the fiscal officer of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Canfield, this includes police protection, street maintenance and repairs, planning and zoning, parks and recreation, water and wastewater. The operation of each of these activities is directly controlled by Council through the budgetary process.

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; (3) the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or (4) provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Prior to 1990, the Fire Department of Canfield was solely operated by the City. The Cardinal Joint Fire district is a jointly managed organization with the Township of Canfield. The City and Township appoint two each of the five member board. The fifth board member is selected by the other four members. The Cardinal Joint Fire District is supported by its own millage.

The Canfield City School District has been excluded from the reporting entity because the City is not financially accountable for this organization nor does the City approve the budget, the levying of taxes or the issuance of debt for this organization.

JOINTLY GOVERNED ORGANIZATION

Mahoning Valley Law Enforcement Task Force (the "Force")

The City agreed to become the fiscal agent for the Force in April of 2003. The Force is jointly governed by 26 participants: 20 local police departments, the Mahoning County Sheriff, the Mahoning County Prosecutor's Office, 2 State Agencies, the FBI, and Columbiana County Drug Task Force. Each participant has one representative on the Board of Control. Each participant's control over the operation of the Force is limited to its representation on the Board. The Force uses the talents and resources of the participants that make up the following teams: Drug Squad (combats trafficking of illegal narcotics), the Crisis Response Team (i.e. hostage situations, etc.), Firearms Trafficking, Gang Activity, Violent Crimes, apprehension of Violent Fugitives, High-crime-area Saturation Patrols, Canine Patrols, Vertical Prosecution, and Homeland Security. Continued existence of the Force is not contingent on the City's continued participation. Funding is provided by the Governor's Office of Criminal Justice Services, HIDTA and the Federal and State forfeitures and fines. None of the participants made financial contributions in 2004.

B. Basis of Presentation - Fund Accounting

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

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

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

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, cemetery, and the general administration of City functions.

Street Construction, Maintenance and Repair Fund - This fund accounts for revenues generated from license and gasoline taxes to be used on local roads within the City.

Mahoning Valley Law Enforcement Task Force Fund - This fund accounts for the activity of the Mahoning Valley Law Enforcement Task Force.

West Main Street Safety Upgrade Project Fund - This fund accounts for the upgrade and safety projects on West Main Street.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; and (b) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows.

Enterprise Funds - The 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:

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

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Storm Water Fund - This fund accounts for the provision of sanitation services 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. The City's only trust fund is a private-purpose trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has seven agency funds.

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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 financial statements for governmental funds.

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

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

E. Basis of Accounting

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

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - During the first Council meeting in July, the Manager presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include encumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimates need to be either increased or decreased.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Cash and Cash Equivalents and Investments

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

During 2004, investments were limited to a repurchase agreement, investments in State Treasury Asset Reserve of Ohio (STAR Ohio), and common stock. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2004.

While common stock is not an allowable investment according to Ohio Statute, the City has received stock from the demutualization of the Anthem Insurance Company. No public funds were used to acquire this stock.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2004 amounted to \$71,717, which included \$51,914 assigned from other funds of the City.

For purpose of presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These 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 proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$100. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. 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 capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	7-20 years	7-20 years
Buildings	50 years	50 years
Equipment	3-20 years	3-20 years
Vehicles	5 years	5 years
Infrastructure	50-75 years	-
Water and Sewer Lines	-	50 years

J. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. The City records a liability for accumulated unused sick and vacation time after 10 years of service.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF CANFIELD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. Interfund Activity

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

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

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, unclaimed monies and perpetual care in the governmental fund financial statements.

O. Estimates

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Contributions of Capital

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

Q. Net Assets

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

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

R. 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, sewer and storm water programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

S. Extraordinary Item

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers". At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39, 41, and 46.

CITY OF CANFIELD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the government not being able to present budgetary comparison for the general and each major special revenue fund.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post employment benefit (OPEB) plans.

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified from expendable trust and agency funds to governmental funds to reflect their intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 and GASB Technical Bulletin 2004-2 had an effect on fund balances as previously reported at December 31, 2003.

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>MVLETF</u>	<u>W. Main St. Safety Upgrade</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance						
December 31, 2003	\$ 1,915,354	\$ 358,011	\$ 626,348	\$ 242,454	\$ 1,064,421	\$ 4,206,588
Fund reclassifications	2,259	-	-	-	286,007	288,266
Intergovernmental payable	(106,791)	(6,912)	-	-	(5,267)	(118,970)
GASB Interpretation No. 6 adjustments	<u>9,212</u>	<u>518</u>	<u>-</u>	<u>-</u>	<u>361</u>	<u>10,091</u>
Restated fund balance January 1, 2004	<u>\$ 1,820,034</u>	<u>\$ 351,617</u>	<u>\$ 626,348</u>	<u>\$ 242,454</u>	<u>\$ 1,345,522</u>	<u>\$ 4,385,975</u>

The transition from governmental fund balance to net assets of the governmental activities is also presented.

Restated fund balance	
December 31, 2003	\$ 4,385,975
GASB Statement No. 34 adjustments:	
Capital assets	13,535,569
Accrued interest payable	(9,249)
Long-term liabilities	(2,853,403)
Long-term (deferred assets)	<u>783,783</u>
Governmental activities net assets, December 31, 2003	<u>\$ 15,842,675</u>

B. Deficit Fund Balance

Fund balances at December 31, 2004 included the following individual fund deficit:

	<u>Deficit</u>
<u>Major Fund</u>	
West Main Street Safety Upgrade Project	\$ 191,680
<u>Nonmajor Fund</u>	
Cops Fast Grant	1,554
Intermodel ODOT Grant	7,585

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS

Monies held by the City are classified by State statute 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 the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits in interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or 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, and Federal Home Loan Mortgage Corporation. 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 must exceed 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 obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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,

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS
- (Continued)

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 two years from the date of purchase and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits: At year-end, the carrying amount of the City's deposits was \$(284,504) and the bank balance was \$55,432. A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the City's bank accounts. The negative carrying amount of deposits is due to the sweeping of monies into overnight repurchase agreements which are reported as "investments". The entire bank balance was covered by federal depository insurance.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
Anthem Stock	\$313,573	\$ -	\$ 313,573
Repurchase Agreements	-	1,979,175	1,979,175
STAR Ohio	-	-	4,776,038
Total Investments	<u>\$313,573</u>	<u>\$1,979,175</u>	<u>\$7,068,786</u>

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS AND INVESTMENTS
- (Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,470,709	\$ 313,573
Investments of the cash management pool:		
Repurchase Agreements	(1,979,175)	1,979,175
Investments in STAR Ohio	<u>(4,776,038)</u>	<u>4,776,038</u>
GASB Statement No. 3	<u>\$ (284,504)</u>	<u>\$ 7,068,786</u>

NOTE 5 - INTERFUNDS

A. Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

Transfers to Street Construction, Maintenance and Repair from: Nonmajor Governmental Fund	\$ 60,163
Transfers to Nonmajor Governmental Funds from:	
General Fund	104,000
Street Construction, Maintenance and Repair	<u>11,800</u>
Total Transfers to Nonmajor Governmental Funds	<u>115,800</u>
Total Transfers	<u>\$ 175,963</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer assets purchased by governmental funds to enterprise funds.

B. Interfund loans consisted of the following at December 31, 2004, as reported on the fund financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	MVLETF	\$ 82,033
Street Construction, Maintenance and Repair	W. Main St. Safety Upgrade Nonmajor Governmental	404,000 <u>7,585</u>
		<u>\$ 411,585</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 25 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The Mahoning County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The Mahoning County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively. The full tax rate for all City operations for the year ended December 31, 2004 was \$3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real property tax	\$ 173,559,220
Public utility tangible personal property	3,037,960
Tangible personal property	<u>9,594,452</u>
Total assessed valuation	<u>\$ 186,191,632</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

NOTE 7 - LOCAL INCOME TAX

The City levies a municipal income tax of one percent as follows:

Resident - Individuals 18 years of age and over pay the tax on income from all sources no matter where derived. The following is taxable, but is not limited to, gross salaries, gross wages, commissions, tips, gratuities and other compensation. The tax is paid on earnings, payments, bonuses, commissions, and fees received by professionals, brokers and independent contractors and the net profits from businesses, rents and farms. Also taxable is income from Sub S Corp., and partnerships. Royalties and gambling winnings over \$5,000 are taxable.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 7 - LOCAL INCOME TAX - (Continued)

Residents who pay another city income tax are given a credit of ½ of 1% of the wage on which the other city tax is paid.

Resident business - Businesses located within the City must withhold the 1% tax on the gross compensation of all employees 18 years of age and older. They must also provide copies of all 1099 Miscellaneous Income Forms issued since the tax is not withheld on that compensation. Taxes are paid on the net profit of the business.

Non-Resident - Taxes are paid on income and wages earned from a business located in the City. The employer must withhold the City income tax on the wages paid all employees. Income earned while working within the city limits is taxable to the City and the employer (even when located outside of the City) must withhold the city tax on these wages. Independent contractors pay on earnings, payments, bonuses, commissions and/or fees received. Since they are not employees, the tax is not withheld by an employer and they file and pay their own taxes.

Non-Resident Business - The tax is withheld on the individuals working within the City limits. Taxes are paid on the net profit of the portion of the business conducted within the City of Canfield or for the City of Canfield.

Income tax proceeds are received by the general fund.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Income taxes	\$ 581,229
Real and other taxes	560,172
Accounts	75,707
Special assessments	5,649
Due from other governments	986,220

Business-type Activities:

Accounts	578,900
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS

Governmental capital assets were restated at December 31, 2003, to report depreciation in accordance with GASB No. 34. Capital asset activity for the year ended December 31, 2004, was as follows:

	(Restated)			Balance
<u>Governmental Activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
	<u>12/31/03</u>			<u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,984,693	\$ 5,176	\$ -	\$ 1,989,869
Construction in progress	<u>1,030,591</u>	<u>808,296</u>	<u>(787,084)</u>	<u>1,051,803</u>
Total capital assets, not being depreciated	<u>3,015,284</u>	<u>813,472</u>	<u>(787,084)</u>	<u>3,041,672</u>
<i>Capital assets, being depreciated:</i>				
Buildings	3,082,334	4,134	-	3,086,468
Land improvements	57,675	43	-	57,718
Equipment	3,207,344	261,265	(202,669)	3,265,940
Infrastructure	<u>11,003,021</u>	<u>795,869</u>	<u>-</u>	<u>11,798,890</u>
Total capital assets, being depreciated	<u>17,350,374</u>	<u>1,061,311</u>	<u>(202,669)</u>	<u>18,209,016</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(712,662)	(69,192)	-	(781,854)
Land improvements	(33,570)	(2,619)	-	(36,189)
Equipment	(1,798,610)	(285,807)	163,853	(1,920,564)
Infrastructure	<u>(4,285,247)</u>	<u>(202,164)</u>	<u>-</u>	<u>(4,487,411)</u>
Total accumulated depreciation	<u>(6,830,089)</u>	<u>(559,782)</u>	<u>163,853</u>	<u>(7,226,018)</u>
Total capital assets, being depreciated, net	<u>10,520,285</u>	<u>501,529</u>	<u>(38,816)</u>	<u>10,982,998</u>
Governmental activities capital assets, net	<u>\$ 13,535,569</u>	<u>\$ 1,315,001</u>	<u>\$ (825,900)</u>	<u>\$ 14,024,670</u>

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 9,140	\$ -	\$ -	9,140
Construction in progress	<u>707,515</u>	<u>298,868</u>	<u>(793,212)</u>	<u>\$ 213,171</u>
Total capital assets, not being depreciated	<u>716,655</u>	<u>298,868</u>	<u>(793,212)</u>	<u>222,311</u>
<i>Capital assets, being depreciated:</i>				
Buildings	1,547,674	-	-	1,547,674
Equipment	390,716	11,146	-	401,862
Infrastructure	<u>17,308,262</u>	<u>884,699</u>	<u>-</u>	<u>18,192,961</u>
Total capital assets, being depreciated	<u>19,246,652</u>	<u>895,845</u>	<u>-</u>	<u>20,142,497</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(415,433)	(30,954)	-	(446,387)
Equipment	(170,886)	(69,987)	-	(240,873)
Infrastructure	<u>(5,999,911)</u>	<u>(373,329)</u>	<u>-</u>	<u>(6,373,240)</u>
Total accumulated depreciation	<u>(6,586,230)</u>	<u>(474,270)</u>	<u>-</u>	<u>(7,060,500)</u>
Total capital assets, being depreciated, net	<u>12,660,422</u>	<u>421,575</u>	<u>-</u>	<u>13,081,997</u>
Business-type activities capital assets, net	<u>\$ 13,377,077</u>	<u>\$ 720,443</u>	<u>\$ (793,212)</u>	<u>\$ 13,304,308</u>

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 91,062
Security of persons and property	199,879
Public health and welfare	24,884
Transportation	220,893
Community environment	1,148
Leisure time activities	<u>21,916</u>
 Total depreciation expense - governmental activities	 <u>\$ 559,782</u>

NOTE 10 - VACATION AND SICK LEAVE LIABILITY

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to thirty days of vacation per year, depending upon length of service. Earned unused vacation time up to a maximum of 200 hours is paid upon termination of employment. Employees earn sick leave at a rate of ten (10) hours per month. Sick leave accrual is continuous, up to 2,000 hours. Upon retirement or death, an employee with 10 years of continuous service can be paid an amount equal to one-fourth (1/4) the total number of accumulated, unused sick hours, not to exceed the maximum of 480 hours. As of December 31, 2004, the liability for unpaid compensated absences was \$188,026 for the entire City.

NOTE 11 - LONG-TERM OBLIGATIONS

- A. The balance of the City's governmental activities long-term obligations at December 31, 2003 has been restated. Intergovernmental obligations of \$118,970 at December 31, 2003 are not reported as a component of governmental activities long-term obligations as they are due and payable at year-end and are reported as a fund liability. The compensated absences liability increased from \$143,199 to \$153,290 due to the implementation of GASB Interpretation No. 6 described in Note 3. The effect on the total governmental activities long-term obligations at January 1, 2004 was a decrease of \$108,879 from \$2,962,282 to \$2,853,403. During 2004, the following changes occurred in governmental activities long-term obligations:

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Governmental Activities:	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Restated Balance 12/31/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/04</u>	<u>Amounts Due in One Year</u>
<u>OPWC Loans:</u>							
Hillside Drive Replacement	1992	3.00%	\$ 43,989	\$ -	\$ (10,511)	\$ 33,478	\$ 10,829
Brookpark Storm Water Imp.	1994	0.00%	28,647	-	(2,729)	25,918	2,729
Hillside Storm Water Imp	1994	0.00%	78,724	-	(7,873)	70,851	7,873
Court St. Area Storm Water Imp.	2000	0.00%	<u>236,253</u>	<u>-</u>	<u>(14,318)</u>	<u>221,935</u>	<u>14,318</u>
Total OPWC Loans			<u>387,613</u>	<u>-</u>	<u>(35,431)</u>	<u>352,182</u>	<u>35,749</u>
<u>General Obligation Bonds:</u>							
Storm Water Improvement	1992	4.75%	225,000	-	(25,000)	200,000	25,000
Water System Improvement	1986	7.75%	375,000	-	(125,000)	250,000	125,000
Red Gate Land Acquisition	2003	2.78%	1,300,000	-	-	1,300,000	-
Municipal Complex Improvement	1994	4.75%	<u>412,500</u>	<u>-</u>	<u>(37,500)</u>	<u>375,000</u>	<u>37,500</u>
Total G.O. Bonds			<u>2,312,500</u>	<u>-</u>	<u>(187,500)</u>	<u>2,125,000</u>	<u>187,500</u>
<u>Other Long-Term Obligations:</u>							
Compensated Absences			<u>153,290</u>	<u>97,089</u>	<u>(97,811)</u>	<u>152,568</u>	<u>122,445</u>
Total governmental activities long-term obligations			<u>\$ 2,853,403</u>	<u>\$ 97,089</u>	<u>\$ (320,742)</u>	<u>\$ 2,629,750</u>	<u>\$ 345,694</u>

Compensated absences reported in the statement of net assets will be paid from the fund from which the employee's salaries are paid.

The following is the summary of the City's future annual debt service and interest requirements for governmental fund obligations:

Year Ending December 31,	<u>OPWC Loans</u>			<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 35,749	\$ 924	\$ 36,673	\$ 187,500	\$ 83,329	\$ 270,829
2006	36,075	596	36,671	1,487,500	52,352	1,539,852
2007	36,412	259	36,671	62,500	21,375	83,875
2008	24,919	-	24,919	62,500	18,406	80,906
2009	24,919	-	24,919	62,500	15,438	77,938
2010 - 2014	115,357	-	115,357	262,500	33,844	296,344
2015 - 2019	71,592	-	71,592	-	-	-
2020 - 2024	<u>7,159</u>	<u>-</u>	<u>7,159</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 352,182</u>	<u>\$ 1,779</u>	<u>\$ 353,961</u>	<u>\$ 2,125,000</u>	<u>\$ 224,744</u>	<u>\$ 2,349,744</u>

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. Long-term obligations in the business-type activities have been restated at December 31, 2003, from \$1,580,454 to \$1,607,768 to include compensated absences in the amount of \$27,314 as a component of long-term obligations. During the fiscal year 2004, the following changes occurred in the City's business-type long-term liabilities:

Business-Type Activities	Date of Issue	Interest Rate	Restated			Balance 12/31/04	Amounts Due in One Year
			Balance 12/31/03	Additions	Retirements		
<u>OPWC Loans:</u>							
Sawmill Sanitary Main Replacement	2002	0.00%	\$ 315,201	\$ -	\$ (18,011)	\$ 297,190	\$ 18,011
Sawmill Sanitary Main Lining	2003	0.00%	<u>334,753</u>	<u>128,337</u>	<u>(23,155)</u>	<u>439,935</u>	<u>23,155</u>
Total OPWC Loans			<u>\$ 649,954</u>	<u>\$ 128,337</u>	<u>\$ (41,166)</u>	<u>\$ 737,125</u>	<u>\$ 41,166</u>
<u>General Obligation Bonds:</u>							
Water Main Construction	1994	4.75%	\$ 137,500	\$ -	\$ (12,500)	\$ 125,000	\$ 12,500
Water Storage Tank	1992	4.75%	342,000	-	(38,000)	304,000	38,000
Northwest Interceptor	1986	7.75%	90,000	-	(30,000)	60,000	30,000
Sewer System Improvement	1996	4.75%	<u>361,000</u>	<u>-</u>	<u>(22,000)</u>	<u>339,000</u>	<u>24,000</u>
Total G.O. Bonds			<u>\$ 930,500</u>	<u>\$ -</u>	<u>\$ (102,500)</u>	<u>\$ 828,000</u>	<u>\$ 104,500</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences			<u>\$ 27,314</u>	<u>\$ 23,181</u>	<u>\$ (15,037)</u>	<u>\$ 35,458</u>	<u>\$ 27,490</u>
Total governmental activities long-term obligations			<u>\$ 1,607,768</u>	<u>\$ 151,518</u>	<u>\$ (158,703)</u>	<u>\$ 1,600,583</u>	<u>\$ 173,156</u>

User charges, impact fees and property taxes are used to pay the G. O. Bonds reported in the enterprise funds. The remaining G.O. Bonds and OPWC Loans will be paid from the proceeds of the municipal income tax.

The following is the summary of the City's future annual debt service and interest requirements for business-type activities obligations:

Year Ending December 31,	<u>OPWC Loans</u>			<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 41,166	\$ -	\$ 41,166	\$ 104,500	\$ 41,130	\$ 145,630
2006	41,166	-	41,166	105,500	35,266	140,766
2007	41,166	-	41,166	76,500	29,355	105,855
2008	41,166	-	41,166	78,500	25,721	104,221
2009	41,166	-	41,166	79,500	21,993	101,493
2010 - 2014	205,830	-	205,830	344,500	53,746	398,246
2015 - 2019	205,830	-	205,830	39,000	1,853	40,853
2020 - 2023	<u>119,635</u>	<u>-</u>	<u>119,635</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 737,125</u>	<u>\$ -</u>	<u>\$ 737,125</u>	<u>\$ 828,000</u>	<u>\$ 209,064</u>	<u>\$ 1,037,064</u>

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2004, the City's total debt margin was \$18,177,773 and the unvoted debt margin was \$8,868,192.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2004, the City contracted with several companies for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
<u>City of Canfield Insurance Policies:</u>		
Scottsdale Indemnity Company	General Liability	None
	Umbrella Liability	None
	General Property Insurance	\$ 500
	Commercial Inland Marine	500
	Commercial Property	500
	Commercial Automobile- Comprehensive	767
	Commercial Automobile- Collision	3,286
Western Surety/ State Auto Insurance Company	Bond- Employee & Officials	None
Gemini Insurance Company	Law Enforcement Liability	25,000
Columbia Casualty Company	Public Officials Liability	10,000
<u>MVLETF Insurance Policies:</u>		
Cincinnati Insurance Company	General Liability	None
	Commercial Property	500
Westfield Companies	Commercial Automobile - Comprehensive	1,000
	Commercial Automobile - Collision	1,000

No settlements exceeded the insurance coverage in the last three years. There has been no significant reduction in coverage from the prior year.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$154,554, \$146,502, and \$141,573, respectively; 91.25% has been contributed for 2004 and 100% has been contributed for 2003 and 2002. The City and plan members did not make any contributions to the member-directed plan for 2004.

B. Ohio Police and Fire Pension Fund

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

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$160,226, \$162,688, \$149,808 respectively. The full amount has been contributed for 2003 and 2002. 71.59%, respectively, have been contributed for 2004 with the remainder being reported as a liability.

NOTE 14 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$45,625. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits was \$63,610 for police and firefighters. The OP&F's total health care expense for the year ended December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), was 13,662 for police and 10,474 for firefighters.

NOTE 15 - 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 Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and major special revenue funds: street construction, maintenance and repair, Mahoning Valley Law Enforcement Task Force is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).

CITY OF CANFIELD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>Mahoning Valley Law Enforcement Task Force</u>
Budget basis	\$ 94,854	\$ (184,847)	\$ (46,392)
Net adjustment for revenue accruals	86,586	26,296	(532,354)
Net adjustment for expenditure accruals	68,379	25,728	38,960
Net adjustment for other sources/(uses)	(126,567)	363,410	96,467
Adjustment for encumbrances	<u>217,250</u>	<u>35,944</u>	<u>91,345</u>
GAAP basis	<u>\$ 340,502</u>	<u>\$ 266,531</u>	<u>\$ (351,974)</u>

NOTE 16 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

B. Litigation

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of various claims and legal proceeds will not have a material effect, if any, on the financial condition of the City.

CITY OF CANFIELD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE 17 - LAND LEASE AGREEMENTS

In fiscal year 1993, the City entered into a land lease for the use of land from the Canfield Board of Education for the operation, maintenance, and repair of a water storage tank. The term of the lease is 99 years commencing May 1, 1993 and ending April 30, 2092, unless otherwise terminated or extended as permitted by the agreement. The City shall pay Canfield Board of Education \$3,000 annually with adjustments based on the consumer price index every ten years. The current payment is \$3,000. The Canfield Board of Education retains title to the property.

In fiscal year 1995, the City entered into a land lease agreement for the use of land from the Consolidated Rail Corporation for the location and maintenance of a sanitary sewer pipe. The term of the lease commenced on December 1, 1995, and ends 90 days from the notice of either party. This land was subsequently acquired by the Mill Creek Metropolitan Park District. The lease agreement continues. The City shall pay the Mill Creek Metropolitan Park District \$2,000 annually with annual adjustments based on the consumer price index. The current payment is \$2,000. The Mill Creek Metropolitan Park District retains title to the property.

In fiscal year 2000, the City entered into a land lease agreement for the use of land from the Mill Creek Metropolitan Park District for the location and maintenance of a sanitary sewer pipe. The term of the lease is 40 years commencing January 12, 2000, unless otherwise terminated or extended as permitted by the agreement. The City shall pay the Mill Creek Metropolitan Park District \$2,000 annually through 2004, with adjustments thereafter as provided in the agreement. The Mill Creek Metropolitan Park District retains title to the property.

CITY OF CANFIELD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	<u>CFDA NUMBER</u>	<u>PASS-THROUGH GRANT NUMBER</u>	<u>CASH (A) FEDERAL DISBURSEMENTS</u>
U.S. DEPARTMENT OF JUSTICE			
PASSED THROUGH			
N/A			
<hr/>			
Federal Equitable Sharing Program-MVLETF	16.000	N/A	\$ 282,425
Federal Equitable Sharing Program-Canfield Police	16.000	N/A	16,347
Total			<hr/> 298,772 <hr/>
Bulletproof Vest Partnership Program	16.607	1121-0235	928
Public Safety Partnership and Community Policing Grants	16.710	2002SHWX0504	60,744
(C) Byrne Formula Grant Program	16.579	2002-DG-A01-7054	38,005
(C) Byrne Formula Grant Program	16.579	2003-DG-A01-7054	286,348
Total			<hr/> 324,353 <hr/>
Total U.S. Department of Justice			<hr/> 684,797 <hr/>
U. S. DEPARTMENT OF HOMELAND SECURITY			
PASSED THROUGH THE			
OHIO EMERGENCY MANAGEMENT AGENCY			
<hr/>			
Disaster Grants - Public Assistance	97.036	FEMA-1484-DE-099-11360	6,042
Total Federal Financial Assistance			<hr/> \$ 690,839 <hr/>

- (A) The Schedule of Federal Award Expenditures (the schedule) summarized activity of the City's federal award program. The Schedule has been prepared on the cash basis of accounting.
- (B) Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditures of non-Federal matching funds is not included on the Schedule.
- (C) Passed Through Governor's Office of Criminal Justice Services.



Julian & Grube, Inc.
Serving Ohio Local Governments

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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Members of Council and Mayor
City of Canfield
104 Lisbon Street
Canfield, OH 44406

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 Canfield, Mahoning County (the "City") as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 16, 2006. As disclosed in Note 3 to the financial statements, for fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers". 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

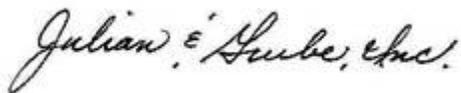
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated June 16, 2006.

Members of Council and Mayor
City of Canfield

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated June 16, 2006.

This report is intended solely for the information and use of management and the City of Canfield, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
June 16, 2006



Julian & Grube, Inc.

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Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance With OMB Circular A-133

Members of Council and Mayor
City of Canfield
104 Lisbon Street
Canfield, OH 44406

Compliance

We have audited the compliance of the City of Canfield, Mahoning County (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. For fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers". The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

Members of Council and Mayor
City of Canfield

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

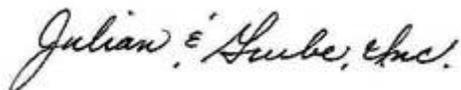
However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings as item 2004-COC-001.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management, the Council of the City of Canfield, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
June 16, 2006

**CITY OF CANFIELD
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITORS' RESULTS		
<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs:	Byrne Formula Grant/CFDA – 16.579 Federal Equitable Sharing Program/CFDA – 16.000
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**CITY OF CANFIELD
MAHONING COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2004**

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

None

3. FINDINGS FOR FEDERAL AWARDS

Audit Requirement

Finding Number	2004-COC-001
CFDA Title and Number	N/A
Federal Award Number/Year	N/A
Federal Agency	N/A
Pass-Through Agency	N/A

Non-compliance Finding

31 U.S.C. 7502(a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in Federal Awards shall have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearing House within nine months after year end.

The City expended \$690,839 in federal awards in fiscal year 2004 and did not have an annual Single Audit conducted until fiscal year 2006.

We recommend the City implement a monitoring procedure to ensure the City has a Single Audit conducted when required. We further recommend the City notify the Auditor of State's office should it determine it has spent more than the required threshold. Without a single audit being conducted in a timely manner the City is potentially affecting its federal funding status.

Client Response: The Finance Director will review prior to year end its federal award expenditures and request an annual audit if the City's federal expenditures exceed the \$500,000 threshold.



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Betty Montgomery**

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CITY OF CANFIELD

MAHONING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 5, 2006**