

**CITY OF CANAL WINCHESTER
FRANKLIN COUNTY, OHIO**

Financial Statements
(Audited)

For The Year Ended
December 31, 2011

AMANDA JACKSON, FINANCE DIRECTOR



Dave Yost • Auditor of State

City Council
City of Canal Winchester
36 South High Street
Canal Winchester, Ohio 43110

We have reviewed the *Independent Auditor's Report* of the City of Canal Winchester, Franklin County, prepared by Julian & Grube, Inc., for the audit period January 1, 2011 through December 31, 2011. 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 Canal Winchester is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 8, 2013

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**CITY OF CANAL WINCHESTER
FRANKLIN COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Accountant's Report

Members of Council and Mayor
City of Canal Winchester
Franklin County
36 South High Street
Canal Winchester, Ohio 43110-1213

To the Members of Council and Mayor:

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

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

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

As described in Note 3, the City of Canal Winchester implemented presenting their financial statements in accordance with generally accepted accounting principles. Also noted in Note 3, during the year ended December 31, 2011, the City of Canal Winchester adopted the provisions of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of the City of Canal Winchester's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Members of Council and Mayor
City of Canal Winchester
Page Two

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.
May 30, 2013

CITY OF CANAL WINCHESTER, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

The management's discussion and analysis of the City of Canal Winchester's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- For 2011, the City presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The effect of applying GAAP to the cash fund balances and net cash assets reported by the City at December 31, 2010 are described in Note 3 to the basic financial statements.
- The total net assets of the City were \$50,032,209 for 2011. Net assets of governmental activities totaled \$557,019 and net assets of business-type activities totaled \$49,475,190.
- General revenues accounted for \$5,264,148 of total governmental activities revenue. Program specific revenues accounted for \$2,241,503 or 29.86% of total governmental activities revenue.
- The City had \$5,417,652 in expenses related to governmental activities; \$2,241,503 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,176,149 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,264,148.
- The general fund had revenues and other financing sources of \$6,071,996 in 2011. The expenditures and other financing uses of the general fund totaled \$6,034,050 in 2011. The ending fund balance for the general fund was \$3,202,918 for 2011.
- The debt service fund had other financing sources of \$3,013,208 in 2011. The expenditures of the debt service fund, totaled \$3,009,617 in 2011. The ending fund balance for the debt service fund was \$27,956.
- The Grant Project had revenues of \$1,148,853 in 2011. The expenditures of the Grant Project, totaled \$1,164,377 in 2011. The ending fund balance for the Grant Project was \$26,337.
- Net assets for the business-type activities, which are made up of the water, sewer, and storm water enterprise funds, totaled \$49,475,190.
- In the general fund, the actual revenues and other financing sources came in \$11,231 higher than they were in the final budget and actual expenditures and other financing uses were \$499,535 less than the amount in the final budget.

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.

CITY OF CANAL WINCHESTER, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

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 2011?" 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, 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 water, sewer, and storm water operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

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 focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 11.

CITY OF CANAL WINCHESTER, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011

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 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, the debt service fund and the Grant Project. 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 20-24 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 water, sewer, and storm water management functions. The water, sewer and storm water funds are all considered major funds. The basic proprietary fund financial statements can be found on pages 25-27 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. The basic fiduciary fund financial statement can be found on page 28 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 29- 62 of this report.

CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the 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.

The table below provides a summary of the City's assets, liabilities and net assets for 2011:

	Net Assets		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 5,348,754	\$ 7,305,728	\$ 12,654,482
Capital assets, net	<u>6,188,535</u>	<u>51,923,105</u>	<u>58,111,640</u>
Total assets	<u>11,537,289</u>	<u>59,228,833</u>	<u>70,766,122</u>
<u>Liabilities</u>			
Long-term liabilities outstanding	10,331,629	9,629,151	19,960,780
Other liabilities	<u>648,641</u>	<u>124,492</u>	<u>773,133</u>
Total liabilities	<u>10,980,270</u>	<u>9,753,643</u>	<u>20,733,913</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt (deficit)	(3,961,787)	42,356,734	38,394,947
Restricted	968,513	-	968,513
Unrestricted	<u>3,550,293</u>	<u>7,118,456</u>	<u>10,668,749</u>
Total net assets	<u>\$ 557,019</u>	<u>\$ 49,475,190</u>	<u>\$ 50,032,209</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$50,032,209. At year-end, net assets were \$557,019 and \$49,475,190 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 53.64% and 87.67% of total assets for the governmental activities and business-type activities, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, intangibles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011, were (\$3,961,787) and \$42,356,734 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, \$968,513 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 \$3,550,293 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

This is the City's first year for government-wide financial statements using the 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. The table below provides a summary of the City's change in net assets for its governmental activities and business-type activities for 2011:

	Change in Net Assets		
	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenues:			
Charges for services	\$ 731,272	\$ 3,169,526	\$ 3,900,798
Operating grants and contributions	361,378	-	361,378
Capital grants and contributions	1,148,853	-	1,148,853
Total program revenues	2,241,503	3,169,526	5,411,029
General revenues:			
Property taxes	374,788	-	374,788
Income taxes	3,982,842	-	3,982,842
Lodging taxes	60,825	-	60,825
Payment in lieu of taxes	215,295	-	215,295
Unrestricted grants and entitlements	404,116	-	404,116
Investment earnings	128,869	-	128,869
Miscellaneous	97,413	41,825	139,238
Total general revenues	5,264,148	41,825	5,305,973
Total revenues	7,505,651	3,211,351	10,717,002
Expenses:			
General government	1,854,583	-	1,854,583
Security of persons and property	1,004,476	-	1,004,476
Public health and welfare	62,842	-	62,842
Transportation	1,166,880	-	1,166,880
Community environment	461,614	-	461,614
Leisure time activity	579,864	-	579,864
Interest and fiscal charges	287,393	-	287,393
Water	-	1,559,827	1,559,827
Sewer	-	1,976,515	1,976,515
Storm water	-	373,850	373,850
Total expenses	5,417,652	3,910,192	9,327,844
Increase (decrease) in net assets before transfers	2,087,999	(698,841)	1,389,158
Transfers	(3,095)	3,095	-
Change in net assets	2,084,904	(695,746)	1,389,158
Net assets (deficit) at beginning of year (restated)	(1,527,885)	50,170,936	48,643,051
Net assets at end of year	\$ 557,019	\$ 49,475,190	\$ 50,032,209

CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

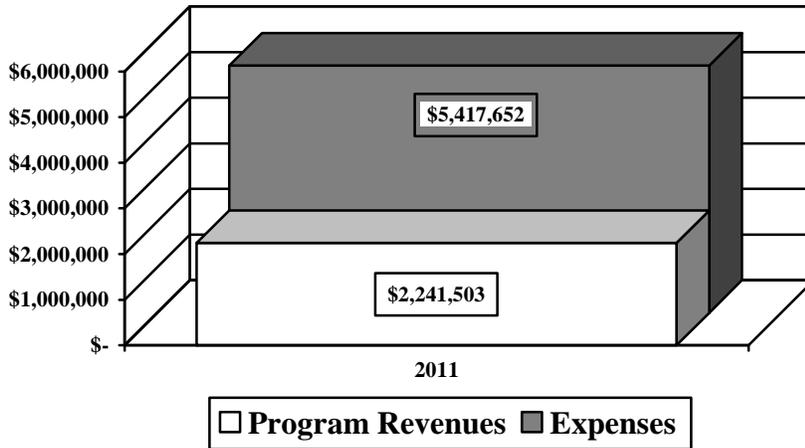
At year-end, net assets were \$557,019 for the governmental activities.

The State and federal government contributed to the City a total of \$361,378 in operating grants and contributions and \$1,148,853 in capital grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$5,264,148 and amounted to 70.14% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,357,630. 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 \$404,116.

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. The City is dependent upon property and income taxes as well as unrestricted grants and entitlements to support governmental activities, including transportation and general government expenditures. Comparisons to 2010 have not been presented since they are not available.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF CANAL WINCHESTER, OHIO

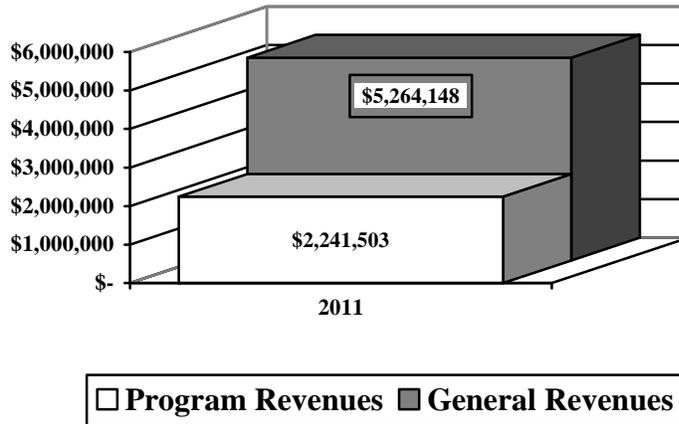
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Program Expenses:		
General government	\$ 1,854,583	\$ 1,271,325
Security of persons and property	1,004,476	1,004,476
Public health and welfare	62,842	62,842
Transportation	1,166,880	(343,351)
Community environment	461,614	461,614
Leisure time activity	579,864	431,850
Interest and fiscal charges	<u>287,393</u>	<u>287,393</u>
Total	<u>\$ 5,417,652</u>	<u>\$ 3,176,149</u>

The dependence upon general revenues for governmental activities is apparent, with 58.63% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2011. Comparisons to 2010 have not been presented since they are not available.

Governmental Activities – General and Program Revenues



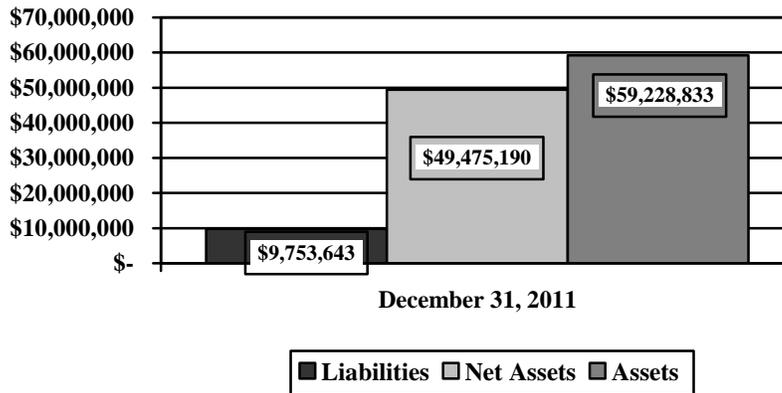
CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Business-type Activities

Business-type activities include the water, sewer, and storm water enterprise funds. These programs had program revenues of \$3,169,526 and expenses of \$3,910,192 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end. Comparisons to 2010 have not been presented since they are not available.

Net Assets in Business - Type Activities



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, unassigned 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 page 20) reported a combined fund balance of \$4,147,297 which is \$248,305 above last year's restated total of \$3,898,992. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and non-major governmental funds. The City restated December 31, 2010 balances for the application of GAAP as described in Note 3.

	Fund Balances 12/31/2011	Restated Fund Balances 12/31/2010	Increase (Decrease)
Major funds:			
General	\$ 3,202,918	\$ 3,164,972	\$ 37,946
Debt service	27,956	24,365	3,591
Grant project	26,337	41,861	(15,524)
Other nonmajor governmental funds	<u>890,086</u>	<u>667,794</u>	<u>222,292</u>
Total	<u>\$ 4,147,297</u>	<u>\$ 3,898,992</u>	<u>\$ 248,305</u>

CITY OF CANAL WINCHESTER, OHIO

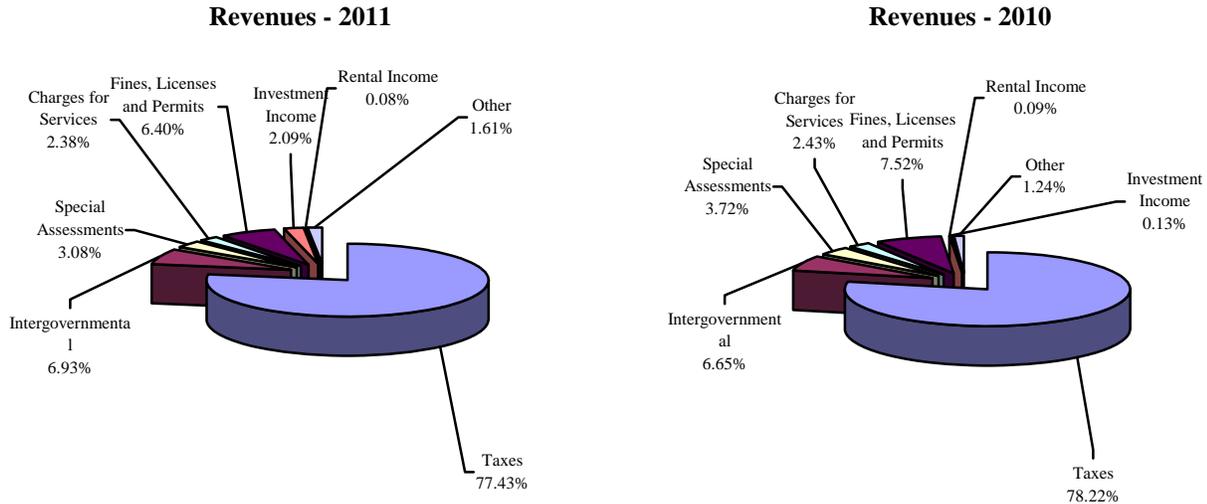
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

General Fund

The City's general fund balance increased \$37,946. The table that follows assists in illustrating the revenues of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
Revenues			
Taxes	\$ 4,681,069	\$ 4,591,780	1.94 %
Intergovernmental	419,162	390,288	7.40 %
Special assessments	186,292	218,512	(14.75) %
Charges for services	144,099	142,932	0.82 %
Fines, licenses and permits	386,978	441,641	(12.38) %
Investment income	126,182	7,897	1,497.85 %
Rental income	4,900	5,210	(5.95) %
Other	<u>97,413</u>	<u>72,549</u>	34.27 %
Total	<u>\$ 6,046,095</u>	<u>\$ 5,870,809</u>	2.99 %

The City's largest revenue source in the general fund was tax revenue, which represents 77.43% of all general fund revenue. Tax revenues increased 1.94% due primarily to increased income tax collections. Other revenues increased 34.27% due to an increase in revenues related to various miscellaneous sources. Investment income increased due to increased investment activity and the reporting of applicable investments at fair market value in 2011. The graphs below show a comparison of revenues for 2011 and 2010:



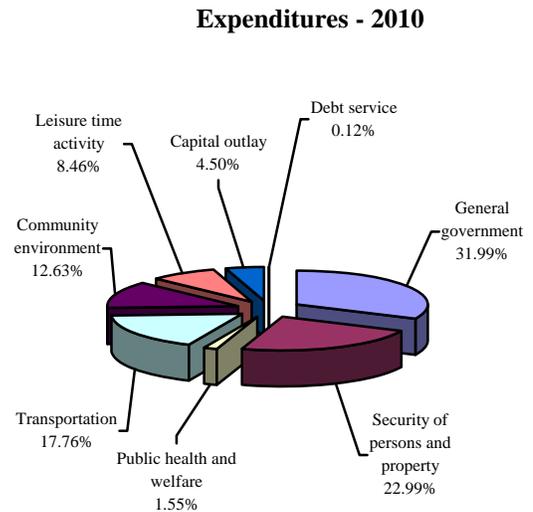
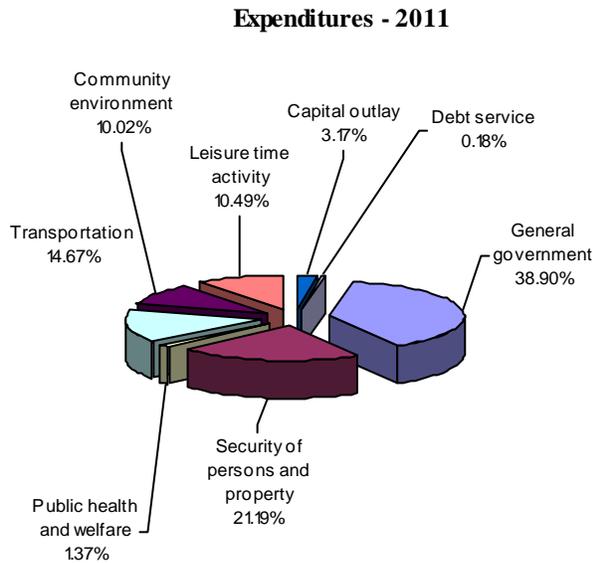
CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,789,433	\$ 1,300,275	37.62 %
Security of persons and property	974,918	934,524	4.32 %
Public health and welfare	62,842	63,136	(0.47) %
Transportation	674,418	721,363	(6.51) %
Community environment	460,702	513,483	(10.28) %
Leisure time activity	482,475	343,653	40.40 %
Capital outlay	145,647	183,016	(20.42) %
Debt service	8,062	4,679	72.30 %
Total	<u>\$ 4,598,497</u>	<u>\$ 4,064,129</u>	13.15 %

General government expenditures consist of various departments that service the government as a whole. General government expenditures increased 37.62% over 2010. Security of persons and property expenditures consist primarily of police operations. These expenditures increased 4.32% over 2010. General government and security of persons and property operations account for 60.10% of total general fund expenditures. The graphs below show a comparison of revenues for 2011 and 2010:



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.

CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Budgetary information is presented for the general fund. In the general fund, the actual revenues and financing sources came in \$11,231 higher than they were in the final budget and actual expenditures and other financing uses were \$499,535 less than the amount in the final budget. Original budgeted revenues and other financing sources of \$5,794,455 remained the same in final budget. Budgeted expenditures and other financing uses increased \$743,680 from an original budget of \$5,979,019 to a final budget of \$6,722,699.

Debt Service Fund

The debt service fund had other financing sources of \$3,013,208 in 2011. The expenditures of the debt service fund, totaled \$3,009,617 in 2011. The ending fund balance for the debt service fund was \$27,956.

Grant Project

The Grant Project had revenues of \$1,148,853 in 2011. The expenditures of the Grant Project, totaled \$1,164,377 in 2011. The ending fund balance for the Grant Project was \$26,337.

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.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the City had \$58,111,640 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, intangibles and infrastructure. The City implemented GAAP in fiscal year 2011 and is required to report infrastructure assets acquired in 2011. See Note 9 for further description of capital assets. The following table shows 2011 balances compared to 2010:

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

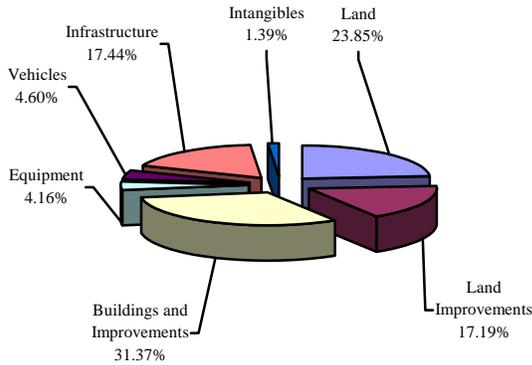
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,627,260	\$ 1,627,260	\$ 913,400	\$ 913,400	\$ 2,540,660	\$ 2,540,660
Intangibles	94,517	-	-	-	94,517	-
Land improvements	923,212	948,102	-	-	923,212	948,102
Buildings and improvements	1,755,685	1,799,691	9,962,106	10,193,269	11,717,791	11,992,960
Equipment	284,116	295,753	655,573	689,321	939,689	985,074
Vehicles	313,983	280,947	67,278	42,526	381,261	323,473
Infrastructure	<u>1,189,762</u>	<u>-</u>	<u>40,324,748</u>	<u>40,474,950</u>	<u>41,514,510</u>	<u>40,474,950</u>
Totals	<u>\$ 6,188,535</u>	<u>\$ 4,951,753</u>	<u>\$ 51,923,105</u>	<u>\$ 52,313,466</u>	<u>\$ 58,111,640</u>	<u>\$ 57,265,219</u>

CITY OF CANAL WINCHESTER, OHIO

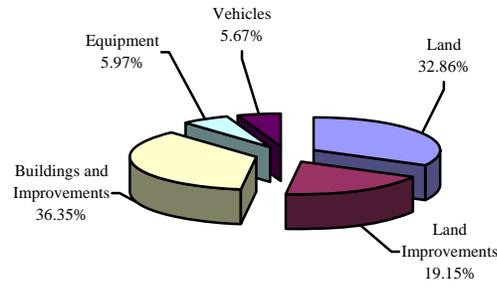
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

Capital Assets - Governmental Activities 2011



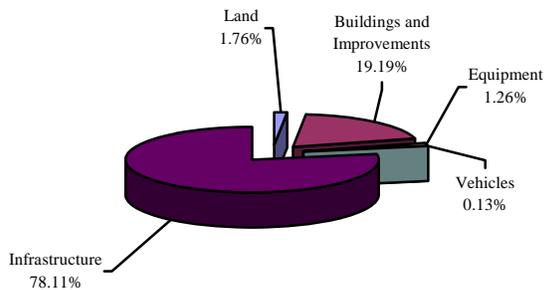
Capital Assets - Governmental Activities 2010



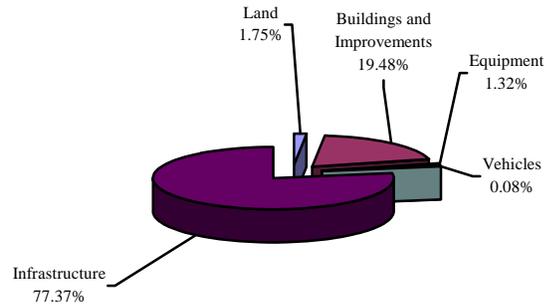
The City's largest governmental capital asset category is buildings and improvements. The net book value of the City's building improvements (cost less accumulated depreciation) represents approximately 31.37% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

Capital Assets - Business - Type Activities 2011



Capital Assets - Business - Type Activities 2010



The City's largest business-type capital asset category is infrastructure. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 78.11% of the City's total business-type capital assets.

CITY OF CANAL WINCHESTER, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 6,205,000	\$ 6,750,000
OPWC loans	2,258,982	2,430,372
Bond anticipation notes	1,700,000	2,000,000
Lease purchase agreement	57,968	-
Capital lease obligation	45,505	25,633
Compensated absences	<u>71,992</u>	<u>68,105</u>
 Total long-term obligations	 <u>\$ 10,339,447</u>	 <u>\$ 11,274,110</u>
	<u>Business-type Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenue bonds	\$ 4,095,000	\$ 4,335,000
OPWC loans	176,878	196,395
OWDA loans	5,294,493	4,657,788
Compensated absences	<u>62,780</u>	<u>47,821</u>
 Total long-term obligations	 <u>\$ 9,629,151</u>	 <u>\$ 9,237,004</u>

See Note 12 to the basic financial statements for detail on the City's long-term obligations.

Economic Factors and Next Year's Budget and Rates

The following economic factors were taken into consideration in preparing the budget for fiscal year 2012:

The City is located in Franklin County, Ohio, which has an unemployment rate currently of 6.3% in December 2011, compared to the 7.6% state average and the 8.5% national average.

State funding continues to decline due to budgetary shortfalls at the State level. It appears Local Government Revenue and Local Government Revenue Assistance Funds will continue to be a target for the State of Ohio budgetary shortfalls. These funds represented 7.15% of the City's general fund cash revenue in 2011. Property tax receipts are expected to remain consistent.

Budgeted revenues and other financing sources in the general fund for 2012 are \$5,755,279 which represents a \$39,176 decrease from final budgeted revenues and other financing sources for 2011. Budgeted expenditures and other financing uses in the general fund for 2012 are \$5,837,793 which represents a \$884,906 decrease from final budgeted expenditures and other financing uses for 2011. The City has continued to practice conservative budgetary practices in order to preserve a positive financial position in future years.

CITY OF CANAL WINCHESTER, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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, contact Ms. Amanda Jackson, Finance Director, City of Canal Winchester, 36 South High Street, Canal Winchester, Ohio 43110-1213.

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 3,398,200	\$ 6,826,671	\$ 10,224,871
Receivables:			
Income taxes	990,802	-	990,802
Property and other taxes	362,096	-	362,096
Payment in lieu of taxes	90,634	-	90,634
Accounts	10,660	436,591	447,251
Special assessments	8,621	-	8,621
Accrued interest	13,051	-	13,051
Due from other governments	279,553	-	279,553
Materials and supplies inventory	47,123	27,233	74,356
Prepayments	23,063	15,233	38,296
Unamortized bond issue costs	124,951	-	124,951
Capital assets:			
Non-depreciable capital assets	1,721,777	913,400	2,635,177
Depreciable capital assets, net	4,466,758	51,009,705	55,476,463
Total capital assets, net	6,188,535	51,923,105	58,111,640
Total assets	11,537,289	59,228,833	70,766,122
Liabilities:			
Accounts payable	79,869	45,998	125,867
Contracts payable	9,433	31,939	41,372
Accrued wages and benefits payable	37,346	19,810	57,156
Due to other governments	57,365	12,781	70,146
Accrued interest payable	38,756	13,964	52,720
Unearned revenue	425,872	-	425,872
Long-term liabilities:			
Due within one year	2,505,520	714,462	3,219,982
Due in more than one year	7,826,109	8,914,689	16,740,798
Total liabilities	10,980,270	9,753,643	20,733,913
Net assets:			
Invested in capital assets, net of related debt (deficit)	(3,961,787)	42,356,734	38,394,947
Restricted for:			
Capital projects	32,684	-	32,684
Transportation projects	646,064	-	646,064
Leisure time activity	77,375	-	77,375
General government	212,390	-	212,390
Unrestricted	3,550,293	7,118,456	10,668,749
Total net assets	\$ 557,019	\$ 49,475,190	\$ 50,032,209

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,854,583	\$ 583,258	\$ -	\$ -
Security of persons and property . . .	1,004,476	-	-	-
Public health and welfare	62,842	-	-	-
Transportation.	1,166,880	-	361,378	1,148,853
Community environment	461,614	-	-	-
Leisure time activity.	579,864	148,014	-	-
Interest and fiscal charges	287,393	-	-	-
Total governmental activities	<u>5,417,652</u>	<u>731,272</u>	<u>361,378</u>	<u>1,148,853</u>
Business-type activities:				
Sewer	1,976,515	1,633,776	-	-
Water	1,559,827	1,328,350	-	-
Storm Water	373,850	207,400	-	-
Total business-type activities.	<u>3,910,192</u>	<u>3,169,526</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 9,327,844</u>	<u>\$ 3,900,798</u>	<u>\$ 361,378</u>	<u>\$ 1,148,853</u>

General revenues:

Property taxes levied for:

 General purposes

Income taxes levied for:

 General purposes

Lodging tax levied for:

 Special revenue

Payments in lieu of taxes

Grants and entitlements not restricted
to specific programs

Investment earnings

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

**Net assets (deficit) 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
\$ (1,271,325)	\$ -	\$ (1,271,325)
(1,004,476)	-	(1,004,476)
(62,842)	-	(62,842)
343,351	-	343,351
(461,614)	-	(461,614)
(431,850)	-	(431,850)
(287,393)	-	(287,393)
<u>(3,176,149)</u>	<u>-</u>	<u>(3,176,149)</u>
-	(342,739)	(342,739)
-	(231,477)	(231,477)
-	<u>(166,450)</u>	<u>(166,450)</u>
-	<u>(740,666)</u>	<u>(740,666)</u>
<u>(3,176,149)</u>	<u>(740,666)</u>	<u>(3,916,815)</u>
374,788	-	374,788
3,982,842	-	3,982,842
60,825	-	60,825
215,295	-	215,295
404,116	-	404,116
128,869	-	128,869
97,413	41,825	139,238
<u>5,264,148</u>	<u>41,825</u>	<u>5,305,973</u>
<u>(3,095)</u>	<u>3,095</u>	<u>-</u>
<u>5,261,053</u>	<u>44,920</u>	<u>5,305,973</u>
2,084,904	(695,746)	1,389,158
<u>(1,527,885)</u>	<u>50,170,936</u>	<u>48,643,051</u>
<u>\$ 557,019</u>	<u>\$ 49,475,190</u>	<u>\$ 50,032,209</u>

CITY OF CANAL WINCHESTER, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General	Debt Service	Grant Project	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	\$ 2,550,255	\$ 27,956	\$ 26,337	\$ 793,652	\$ 3,398,200
Receivables:					
Income taxes.	990,802	-	-	-	990,802
Property and other taxes.	353,082	-	-	9,014	362,096
Payment in lieu of taxes	-	-	-	90,634	90,634
Accounts.	10,461	-	-	199	10,660
Special assessments	8,621	-	-	-	8,621
Accrued interest	13,051	-	-	-	13,051
Due from other governments.	116,353	-	-	163,200	279,553
Materials and supplies inventory.	3,871	-	-	43,252	47,123
Prepayments	23,063	-	-	-	23,063
Total assets.	<u>\$ 4,069,559</u>	<u>\$ 27,956</u>	<u>\$ 26,337</u>	<u>\$ 1,099,951</u>	<u>\$ 5,223,803</u>
Liabilities:					
Accounts payable.	\$ 79,668	\$ -	\$ -	\$ 201	\$ 79,869
Contracts payable.	9,433	-	-	-	9,433
Accrued wages and benefits payable	31,136	-	-	6,210	37,346
Due to other governments	54,717	-	-	2,648	57,365
Accrued interest payable	-	-	-	-	-
Deferred revenue	356,449	-	-	110,172	466,621
Unearned revenue	335,238	-	-	90,634	425,872
Total liabilities	<u>866,641</u>	<u>-</u>	<u>-</u>	<u>209,865</u>	<u>1,076,506</u>
Fund balances:					
Nonspendable	26,934	-	-	43,252	70,186
Restricted.	-	-	26,337	846,834	873,171
Committed	81,476	-	-	-	81,476
Assigned	190,197	27,956	-	-	218,153
Unassigned.	2,904,311	-	-	-	2,904,311
Total fund balances	<u>3,202,918</u>	<u>27,956</u>	<u>26,337</u>	<u>890,086</u>	<u>4,147,297</u>
Total liabilities and fund balances	<u>\$ 4,069,559</u>	<u>\$ 27,956</u>	<u>\$ 26,337</u>	<u>\$ 1,099,951</u>	<u>\$ 5,223,803</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$ 4,147,297
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6,188,535
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 280,522	
Real and other taxes receivable	17,844	
Intergovernmental receivable	148,132	
Special assessments receivable	8,621	
Accrued interest receivable	11,502	
Total	<u>466,621</u>	466,621
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.		(38,756)
Unamortized bond issuance costs are not recognized in the governmental funds.		124,951
Unamortized discounts on bond issuances are not recognized in the governmental funds.		7,818
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(71,992)	
General obligation bonds payable	(6,205,000)	
OPWC loans	(2,258,982)	
Bond anticipation notes payable	(1,700,000)	
Lease purchase payable	(57,968)	
Capital lease payable	(45,505)	
Total	<u>(10,339,447)</u>	(10,339,447)
Net assets of governmental activities		<u>\$ 557,019</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Debt Service	Grant Project	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income taxes	\$ 4,300,877	\$ -	\$ -	\$ -	\$ 4,300,877
Property and other taxes.	380,192	-	-	60,825	441,017
Payment in lieu of taxes	-	-	-	215,295	215,295
Intergovernmental.	419,162	-	1,148,853	359,492	1,927,507
Special assessments	186,292	-	-	-	186,292
Charges for services.	144,099	-	-	-	144,099
Fines, licenses and permits	386,978	-	-	5,457	392,435
Investment income.	126,182	-	-	229	126,411
Rental income	4,900	-	-	-	4,900
Other	97,413	-	-	1,663	99,076
Total revenues	6,046,095	-	1,148,853	642,961	7,837,909
Expenditures:					
Current:					
General government	1,789,433	-	-	2,905	1,792,338
Security of persons and property	974,918	-	-	-	974,918
Public health and welfare.	62,842	-	-	-	62,842
Transportation	674,418	-	-	399,382	1,073,800
Community environment	460,702	-	-	-	460,702
Leisure time activity	482,475	-	-	57,011	539,486
Capital outlay	145,647	-	1,164,377	149,044	1,459,068
Debt service:					
Principal retirement.	6,029	2,716,390	-	12,259	2,734,678
Interest and fiscal charges	2,033	283,772	-	-	285,805
Bond issuance costs	-	9,455	-	-	9,455
Total expenditures	4,598,497	3,009,617	1,164,377	620,601	9,393,092
Excess (deficiency) of revenues over (under) expenditures	1,447,598	(3,009,617)	(15,524)	22,360	(1,555,183)
Other financing sources (uses):					
Note issuance	-	1,700,000	-	-	1,700,000
Capital lease transaction.	25,901	-	-	70,227	96,128
Transfers in	-	1,302,753	-	163,896	1,466,649
Transfers (out).	(1,435,553)	-	-	(34,191)	(1,469,744)
Premium on note issuance.	-	10,455	-	-	10,455
Total other financing sources (uses)	(1,409,652)	3,013,208	-	199,932	1,803,488
Net change in fund balances	37,946	3,591	(15,524)	222,292	248,305
Fund balances at beginning of year (restated)	3,164,972	24,365	41,861	667,794	3,898,992
Fund balances at end of year	\$ 3,202,918	\$ 27,956	\$ 26,337	\$ 890,086	\$ 4,147,297

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund balances - total governmental funds \$ 248,305

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

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

Capital asset additions	\$ 1,423,817	
Current year depreciation	<u>(187,035)</u>	
Total		1,236,782

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

Income taxes	(318,035)	
Real and other taxes	(5,404)	
Intergovernmental revenues	(15,052)	
Special assessments	3,546	
Investment income	<u>2,687</u>	
Total		(332,258)

Proceeds of notes, capital leases and lease purchase agreements are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (1,796,128)

Repayment of bond, loan and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 2,734,678

In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in more interest being reported on the statement of activities:

Decrease in accrued interest payable	4,824	
Amortization of bond issuance costs	(6,975)	
Amortization of bond discounts	<u>(437)</u>	
Total		(2,588)

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. (3,887)

Change in net assets of governmental activities \$ 2,084,904

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, 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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 4,177,623	\$ 4,177,623	\$ 4,185,721	\$ 8,098
Property and other taxes.	379,456	379,456	380,192	736
Intergovernmental.	414,320	414,320	415,123	803
Special assessments.	185,932	185,932	186,292	360
Charges for services.	140,172	140,172	140,444	272
Fines, licenses and permits	389,136	389,136	389,890	754
Investment income.	11,070	11,070	11,091	21
Other	96,736	96,736	96,923	187
Total revenues.	<u>5,794,445</u>	<u>5,794,445</u>	<u>5,805,676</u>	<u>11,231</u>
Expenditures:				
Current:				
General government.	1,725,710	2,139,210	1,952,618	186,592
Security of persons and property	977,500	980,000	965,942	14,058
Public health and services.	66,500	66,500	64,027	2,473
Transportation	767,500	767,500	674,196	93,304
Community environment	523,650	524,150	456,034	68,116
Leisure time activities.	268,100	295,280	270,027	25,253
Capital outlay	225,606	225,606	212,992	12,614
Total expenditures.	<u>4,554,566</u>	<u>4,998,246</u>	<u>4,595,836</u>	<u>402,410</u>
Excess of revenues over expenditures.	<u>1,239,879</u>	<u>796,199</u>	<u>1,209,840</u>	<u>413,641</u>
Other financing sources (uses):				
Sale of capital assets.	10	10	10	-
Transfers (out).	(1,424,453)	(1,724,453)	(1,627,328)	97,125
Total other financing sources (uses).	<u>(1,424,443)</u>	<u>(1,724,443)</u>	<u>(1,627,318)</u>	<u>97,125</u>
Net change in fund balances	(184,564)	(928,244)	(417,478)	510,766
Fund balances at beginning of year	2,674,549	2,674,549	2,674,549	-
Prior year encumbrances appropriated	85,047	85,047	85,047	-
Fund balance at end of year	<u>\$ 2,575,032</u>	<u>\$ 1,831,352</u>	<u>\$ 2,342,118</u>	<u>\$ 510,766</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Assets:				
Current assets:				
Equity in pooled cash and investments.	\$ 4,249,290	\$ 2,323,233	\$ 254,148	\$ 6,826,671
Receivables:				
Accounts	220,444	181,773	34,374	436,591
Materials and supplies inventory.	8,685	18,548	-	27,233
Prepayments	7,268	7,965	-	15,233
Total current assets	<u>4,485,687</u>	<u>2,531,519</u>	<u>288,522</u>	<u>7,305,728</u>
Noncurrent assets:				
Capital assets:				
Non-depreciable capital assets	8,400	905,000	-	913,400
Depreciable capital assets, net	26,547,070	15,619,448	8,843,187	51,009,705
Total capital assets, net	<u>26,555,470</u>	<u>16,524,448</u>	<u>8,843,187</u>	<u>51,923,105</u>
Total noncurrent assets	<u>26,555,470</u>	<u>16,524,448</u>	<u>8,843,187</u>	<u>51,923,105</u>
Total assets	<u>31,041,157</u>	<u>19,055,967</u>	<u>9,131,709</u>	<u>59,228,833</u>
Liabilities:				
Current liabilities:				
Accounts payable.	8,299	36,596	1,103	45,998
Contracts payable.	31,939	-	-	31,939
Accrued wages and benefits payable	6,831	11,472	1,507	19,810
Due to other governments	6,430	6,307	44	12,781
Accrued interest payable	13,964	-	-	13,964
Compensated absences payable - current.	18,822	24,780	4,196	47,798
Revenue bonds payable	250,000	-	-	250,000
OWDA loans payable	46,649	352,273	-	398,922
OPWC loans payable.	9,932	7,810	-	17,742
Total current liabilities	<u>392,866</u>	<u>439,238</u>	<u>6,850</u>	<u>838,954</u>
Long-term liabilities:				
Compensated absences payable	7,313	7,669	-	14,982
Revenue bonds payable	3,845,000	-	-	3,845,000
OWDA loans payable	1,090,292	3,805,279	-	4,895,571
OPWC loans payable.	138,243	20,893	-	159,136
Total long-term liabilities	<u>5,080,848</u>	<u>3,833,841</u>	<u>-</u>	<u>8,914,689</u>
Total liabilities.	<u>5,473,714</u>	<u>4,273,079</u>	<u>6,850</u>	<u>9,753,643</u>
Net assets:				
Invested in capital assets, net of related debt.	21,175,354	12,338,193	8,843,187	42,356,734
Unrestricted	4,392,089	2,444,695	281,672	7,118,456
Total net assets.	<u>\$ 25,567,443</u>	<u>\$ 14,782,888</u>	<u>\$ 9,124,859</u>	<u>\$ 49,475,190</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Operating revenues:				
Charges for services	\$ 1,289,812	\$ 1,165,360	\$ 207,400	\$ 2,662,572
Capacity fees.	343,964	162,990	-	506,954
Other operating revenues	7,601	34,224	-	41,825
Total operating revenues.	<u>1,641,377</u>	<u>1,362,574</u>	<u>207,400</u>	<u>3,211,351</u>
Operating expenses:				
Personal services	350,863	336,029	41,833	728,725
Transportation.	9,738	8,068	-	17,806
Contractual services.	317,151	239,385	29,506	586,042
Materials and supplies.	110,079	219,267	112,030	441,376
Depreciation.	997,111	549,764	190,481	1,737,356
Other	-	59,210	-	59,210
Total operating expenses	<u>1,784,942</u>	<u>1,411,723</u>	<u>373,850</u>	<u>3,570,515</u>
Operating income (loss).	<u>(143,565)</u>	<u>(49,149)</u>	<u>(166,450)</u>	<u>(359,164)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges	(191,573)	(148,104)	-	(339,677)
Total nonoperating revenues (expenses).	<u>(191,573)</u>	<u>(148,104)</u>	<u>-</u>	<u>(339,677)</u>
Income (loss) before transfers.	(335,138)	(197,253)	(166,450)	(698,841)
Transfer in	<u>1,355</u>	<u>1,740</u>	<u>-</u>	<u>3,095</u>
Change in net assets	(333,783)	(195,513)	(166,450)	(695,746)
Net assets at beginning of year (restated)	<u>25,901,226</u>	<u>14,978,401</u>	<u>9,291,309</u>	<u>50,170,936</u>
Net assets at end of year	<u>\$ 25,567,443</u>	<u>\$ 14,782,888</u>	<u>\$ 9,124,859</u>	<u>\$ 49,475,190</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Cash flows from operating activities:				
Cash received from sales/charges for services	\$ 1,300,416	\$ 1,159,600	\$ 207,832	\$ 2,667,848
Cash received from capacity fees	338,051	162,990	-	501,041
Cash received from other operations	7,601	34,224	-	41,825
Cash payments for personal services	(343,411)	(328,406)	(41,650)	(713,467)
Cash payments for transportation	(10,165)	(8,687)	-	(18,852)
Cash payments for contractual services	(310,963)	(212,985)	(29,453)	(553,401)
Cash payments for materials and supplies	(111,364)	(211,446)	(110,980)	(433,790)
Cash payments for other expenses	-	(63,999)	-	(63,999)
Net cash provided by operating activities	<u>870,165</u>	<u>531,291</u>	<u>25,749</u>	<u>1,427,205</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	1,355	1,740	-	3,095
Net cash provided by noncapital financing activities	<u>1,355</u>	<u>1,740</u>	<u>-</u>	<u>3,095</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(1,051,274)	(95,024)	(158,311)	(1,304,609)
Principal retirement on OWDA loans	(44,000)	(334,680)	-	(378,680)
Principal retirement on OPWC loans	(9,641)	(9,876)	-	(19,517)
Principal retirement on revenue bonds	(240,000)	-	-	(240,000)
Interest and fiscal charges	(192,214)	(148,104)	-	(340,318)
Proceeds of OWDA loans	1,015,385	-	-	1,015,385
Net cash used in capital and related financing activities	<u>(521,744)</u>	<u>(587,684)</u>	<u>(158,311)</u>	<u>(1,267,739)</u>
Net increase (decrease) in cash and cash equivalents	349,776	(54,653)	(132,562)	162,561
Cash and cash equivalents at beginning of year	3,899,514	2,377,886	386,710	6,664,110
Cash and cash equivalents at end of year	<u>\$ 4,249,290</u>	<u>\$ 2,323,233</u>	<u>\$ 254,148</u>	<u>\$ 6,826,671</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (143,565)	\$ (49,149)	\$ (166,450)	\$ (359,164)
Adjustments:				
Depreciation	997,111	549,764	190,481	1,737,356
Changes in assets and liabilities:				
Decrease (increase) in materials and supplies inventory	(1,072)	7,888	-	6,816
Decrease (increase) in accounts receivable	4,691	(5,760)	432	(637)
Decrease (increase) in prepayments	239	(169)	-	70
Increase (decrease) in accounts payable	(26,642)	20,234	1,103	(5,305)
Increase in contracts payable	31,939	-	-	31,939
Increase (decrease) in accrued wages and benefits	(477)	1,726	(184)	1,065
Increase (decrease) in intergovernmental payable	(119)	231	(6)	106
Increase in compensated absences payable	8,060	6,526	373	14,959
Net cash provided by operating activities	<u>\$ 870,165</u>	<u>\$ 531,291</u>	<u>\$ 25,749</u>	<u>\$ 1,427,205</u>

Non-cash capital transactions:

During 2011, the sewer and water fund purchased capital assets on account in the amount of \$31,939 and \$10,447, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2011**

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments.	\$ 132,968
Cash in segregated accounts	<u>11,157</u>
Total assets	<u>\$ 144,125</u>
Liabilities:	
Due to others.	<u>\$ 144,125</u>
Total liabilities	<u>\$ 144,125</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Canal Winchester (the “City”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a Council-Mayor form of government and provides the following services: police protection (through Fairfield County), water and sewer utility services, park operations, street maintenance and repair, as well as general governmental services.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials are financially accountable.

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 applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has the option to apply FASB guidance 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 this FASB guidance. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City’s basic financial statements 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 City has no component units. The following organization is described due to its relationship to the City:

Canal Winchester Industry and Commerce Corporation (the “CWICC”)

The CWICC is a legally separate, non-profit corporation created on August 22, 1994 pursuant to the provisions of Ohio Rev. Code Section 1724.10. The CWICC is governed by a five-member Board of Trustees. Two of the members are from elected City officials and the remaining three members are elected by the CWICC. Vacancies are appointed by the remaining Trustees by an affirmative majority vote. The CWICC’s sole purpose is to carry out the Plan of Industrial, Commercial, Distribution and Research Development for the City. The City is not required under this agreement to provide any financial contribution to the CWICC. The City did not expend any money in 2011 to the CWICC. The CWICC can incur debt, mortgage its property acquired, otherwise issue its obligations for the purpose of acquiring, constructing, improving and equipping buildings, structures and other properties and acquiring sites. The financial activities of the CWICC are not included in the financial statements of the City.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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.

Fund Financial Statements - Fund financial statements report detailed information about the City. 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 fund type.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific revenues and expenses. The transactions of each fund are reflected in a self-balancing group of accounts. The City classifies each fund as either governmental, proprietary or fiduciary.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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 - This fund is used to account for and report all financial resources of the City except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt service fund - This fund accounts for and reports all transactions relating to the payment of debt.

Grant project - This fund accounts for and reports all transactions relating to Issue II and CDBG construction.

Other governmental funds of the City are used to account for (a) financial resources that are restricted to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted to an expenditure for specified purposes other than debt service or capital projects.

Proprietary Funds - These funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

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

Sewer fund - This fund accounts for the user charges and expenses of maintaining the sewer lines and facilities of the City.

Storm water fund - This fund accounts for storm water operations.

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. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has two agency funds which account for the City's Mayor's Court and Meijer agency fund.

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.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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 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.

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

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes, special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue on the governmental fund financial statements.

On governmental fund financial statements, receivables that will not be collected within the available period have 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.

F. Budgetary Process

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 appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, except agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each department within each fund. Any budgetary modifications at this level may only be made by resolution of the City's Council.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Tax Budget:

A budget of estimated cash receipts and disbursements 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. The purpose of the tax budget is to reflect the need for existing (or increased) tax rates.

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget 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 receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the City determined that receipts collected will be greater than or less than the prior estimate and the Budget Commission finds the revised estimate to be reasonable. On or before December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. The amounts reported within the budgetary statements reflect the original and final estimated resources as certified by the County Budget Commission.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The City legally adopted appropriation amendments during 2011. The budgetary statement reflects the original and final appropriations as approved by Council.

Encumbrances:

As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

G. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. Interest earnings are allocated as authorized by State statute.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets.

During 2011, the City invested in State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities, negotiable certificates of deposit (CD), municipal bonds and U.S. government money market funds. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The City has invested funds in STAR Ohio during 2011. 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 shares price which is the price the investment could be sold for on December 31, 2011.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2011 amounted to \$126,182, which included \$93,489 assigned from other funds of the City.

H. Inventories of Materials and Supplies

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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.

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 \$5,000. The City's infrastructure consists of 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.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

All reported capital assets are depreciated except for land and intangibles. Improvements are depreciated over the remaining useful lives of the related capital assets. 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	40-50 years	-
Buildings and improvements	50 years	25-50 years
Equipment	5-20 years	10-20 years
Vehicles	8 years	8 years
Infrastructure	20-30 years	30-50 years

J. Compensated Absences

Compensated absences of the City consist of vacation leave, sick leave, comp time and personal leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with 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 attributable 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. Sick leave benefits are accrued as a 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 total liability for compensated absence payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation leave, sick leave, comp time and personal leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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 CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

L. 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 basic financial statements.

M. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

N. 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.

O. 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

P. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2011 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

R. Cooperative Economic Development Agreement (CEDA)

On September 15, 2001 the City of Canal Winchester (then Village) entered into a CEDA with Violet Township, a contiguous and overlapping subdivision in Fairfield County, to cooperate in creating and preserving jobs and employment opportunities and to cooperate in inducing and fostering economic development with uniform planning standards in accordance with Ohio Revised Code Section 701.07. The Agreement allows for development of a designated area with the sharing of services and an annual service fee between the parties. This agreement has been in part responsible for the development of industrial/commercial development known as Canal Pointe which currently includes 61 businesses with over 1,038 employees.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For the fiscal year ended December 31, 2011, the City has presented for the first time its basic financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). In conjunction with this presentation, the City has (1) reclassified a certain fund, (2) converted its governmental funds to the modified accrual basis of accounting and (3) converted its enterprise funds, governmental activities and business-type activities to the accrual basis of accounting.

Fund Reclassification - the Community Center fund has been reclassified from an other governmental fund to a component of the general fund in accordance with the reporting requirements of GASB Statement No. 54. GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

Modified Accrual Basis Adjustments - the conversion of the governmental funds from the cash-basis of accounting to the modified accrual basis of accounting required certain adjustments to be recorded at December 31, 2010 to the fund cash balances as previously reported to reflect the prior year's effect of adopting these new accounting principles.

Accrual Basis Adjustments - the conversion of the enterprise funds from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at December 31, 2010 to the net cash assets as previously reported to reflect the prior year's effect of adopting these new accounting principles.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The restatement to the December 31, 2010 fund cash balances for the governmental funds follows:

	Fund Cash Balance December 31, 2010	Fund Reclassification	Modified Accrual Basis Adjustments	Restated Fund Balance January 1, 2011
Governmental fund:				
General	\$ 2,648,226	\$ 14,333	\$ 502,413	\$ 3,164,972
Debt service	24,365	-	-	24,365
Grant project	41,861	-	-	41,861
Other governmental	<u>605,818</u>	<u>(14,333)</u>	<u>76,309</u>	<u>667,794</u>
Total governmental funds	<u>\$ 3,320,270</u>	<u>\$ -</u>	<u>\$ 578,722</u>	<u>\$ 3,898,992</u>

The restatement to the December 31, 2010 net cash assets for the enterprise funds follows:

	Net Cash Assets December 31, 2010	Fund Reclassification	Accrual Basis Adjustments	Restated Net Assets January 1, 2011
Enterprise funds:				
Water	\$ 2,377,886	\$ -	\$ 12,600,515	\$ 14,978,401
Sewer	3,899,514	-	22,001,712	25,901,226
Storm Water	<u>386,710</u>	<u>-</u>	<u>8,904,599</u>	<u>9,291,309</u>
Total enterprise funds	<u>\$ 6,664,110</u>	<u>\$ -</u>	<u>\$ 43,506,826</u>	<u>\$ 50,170,936</u>

Under GAAP, the City's government-wide financial statements are prepared on the accrual basis of accounting. The government-wide financial statements show the City's programs for governmental activities and business-type activities. The conversion of the governmental activities and business-type activities from the cash-basis of accounting to the accrual basis of accounting required certain adjustments to be recorded at December 31, 2010 to the net cash assets as previously reported to reflect the prior year's effect of adopting these new accounting principles. Since the enterprise funds and the business-type activities are both reported on the accrual basis of accounting under GAAP, the total accrual basis adjustments required are the same for both.

Fiduciary Activities - Agency funds do not report fund balances; therefore no transition is required to restate the beginning net cash assets.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The restatement to the December 31, 2010 net cash assets for the governmental activities and business-type activities follows:

	Governmental Activities	Business-Type Activities
Net cash assets, December 31, 2010	\$ 3,320,270	\$ 6,664,110
Modified accrual basis adjustments	578,722	-
Accrual basis adjustments:		
Accounts receivable	-	435,954
Material and supplies inventory	-	34,049
Prepayments	-	15,303
Accounts and contracts payable	-	(8,917)
Accrued wages and benefits payable	-	(18,745)
Due to other governments	-	(12,675)
Capital assets, net	4,951,753	52,313,466
Long-term (deferred) assets	798,879	-
Unamortized bond issuance costs	131,926	-
Compensated absences	(68,105)	(47,821)
Accrued interest payable	(43,580)	(14,605)
Long-term debt (including bond discounts)	(11,197,750)	(9,189,183)
Restated net assets (deficit), January 1, 2011	\$ (1,527,885)	\$ 50,170,936

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 items 1 or 2, above, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Director of Finance or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the City had \$150 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and investments".

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash in Segregated Accounts

At fiscal year end, \$11,157 was on deposit for the healthcare account and was held outside of the City's treasury. This amount is included in the total amount of deposits reported below and is reported on the financial statements as "cash in segregated accounts".

C. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits was \$2,635,763. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$1,777,672 of the City's bank balance of \$2,732,612 was exposed to custodial credit risk as discussed below, while \$954,940 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

D. Investments

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
FHLB	\$ 804,559	\$ -	\$ -	\$ -	\$ -	\$ 804,559
FHLMC	300,063	-	-	-	-	300,063
FNMA	1,501,995	-	-	-	-	1,501,995
Negotiable CD	1,104,009	-	-	-	753,525	350,484
Municipal bonds	415,896	-	-	-	-	415,896
STAR Ohio	161,392	161,392	-	-	-	-
U.S. Government money market	3,445,169	3,445,169	-	-	-	-
Total	\$ 7,733,083	\$ 3,606,561	\$ -	\$ -	\$ 753,525	\$ 3,372,997

The weighted average maturity of investments is 1.72 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: STAR Ohio and U.S. Government money market mutual funds carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The federal agency securities carry a rating of AA+ and Aaa by Standard & Poor's and Moody, respectively. The municipal bonds carry a rating of Aa1 and AA+ by Standard & Poor's and Moody, respectively. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Finance Director or qualified trustee.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 804,559	10.40
FHLMC	300,063	3.88
FNMA	1,501,995	19.41
Negotiable CD	1,104,009	14.28
Muni Bond - Ohio State	415,896	5.38
STAR Ohio	161,392	2.09
U.S. Government money market	3,445,169	44.56
	<u>\$ 7,733,083</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposit	\$ 2,635,763
Investments	7,733,083
Cash on hand	150
Total	<u>\$ 10,368,996</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 3,398,200
Business-type activities	6,826,671
Agency fund	144,125
Total	<u>\$ 10,368,996</u>

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported in the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Debt service fund	\$ 1,302,753
Nonmajor governmental funds	132,800
 <u>Transfers from nonmajor governmental funds to:</u>	
Sewer fund	1,355
Water fund	1,740
Nonmajor governmental funds	<u>31,096</u>
Total	<u>\$ 1,469,744</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.

The transfers from the nonmajor governmental funds were from the FEMA fund to the various funds to reimburse for FEMA expenditures.

Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Interfund transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility 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. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 6 - PROPERTY TAXES - (Continued)

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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

Real property tax	\$ 222,730,340
Public utility tangible personal property	<u>2,160,620</u>
Total assessed value	<u>\$ 224,890,960</u>

NOTE 7 - LOCAL INCOME TAX

This locally levied tax of 2.0% applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City and to earnings of nonresidents (except certain transients) earned in the City. The City gives a 100% credit to the tax paid to another municipality to the maximum of the total amount assessed. It also applies to the net income of business organizations located within the City. The City of Columbus administers and collects income taxes for the City. Payments, net of collection fees, are remitted monthly for tax receipts received by the City of Columbus in the prior month. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2011. Income tax revenue for 2011 was \$4,300,877 as reported in the fund financial statements. Income tax revenue is reported in the general fund.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), accrued interest, 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, 2011.

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Income taxes	\$ 990,802
Property and other taxes	362,096
Payments in lieu of taxes	90,634
Accounts	10,660
Accrued interest	13,051
Special assessments	8,621
Due from other governments	279,553

Business-type activities:

Accounts	436,591
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Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

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CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity for the year ended December 31, 2011, was as follows:

<u>Governmental activities:</u>	Balance <u>12/31/10</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,627,260	\$ -	\$ -	\$ 1,627,260
Intangibles	<u>-</u>	<u>94,517</u>	<u>-</u>	<u>94,517</u>
Total capital assets, not being depreciated	<u>1,627,260</u>	<u>94,517</u>	<u>-</u>	<u>1,721,777</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,225,953	-	-	1,225,953
Buildings and improvements	2,444,837	-	-	2,444,837
Furniture and equipment	455,728	25,901	-	481,629
Vehicles	733,496	91,451	(13,500)	811,447
Infrastructure	<u>-</u>	<u>1,211,948</u>	<u>-</u>	<u>1,211,948</u>
Total capital assets, being depreciated	<u>4,860,014</u>	<u>1,329,300</u>	<u>(13,500)</u>	<u>6,175,814</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(277,851)	(24,890)	-	(302,741)
Buildings and improvements	(645,146)	(44,006)	-	(689,152)
Furniture and equipment	(159,975)	(37,538)	-	(197,513)
Vehicles	(452,549)	(58,415)	13,500	(497,464)
Infrastructure	<u>-</u>	<u>(22,186)</u>	<u>-</u>	<u>(22,186)</u>
Total accumulated depreciation	<u>(1,535,521)</u>	<u>(187,035)</u>	<u>13,500</u>	<u>(1,709,056)</u>
Governmental activities, capital assets, net	<u>\$ 4,951,753</u>	<u>\$ 1,236,782</u>	<u>\$ -</u>	<u>\$ 6,188,535</u>

Depreciation expense was charged to governmental activities as follows:

<u>Governmental activities:</u>	
General government	\$ 57,364
Security of persons and property	5,376
Transportation	82,854
Leisure time activity	<u>41,441</u>
Total depreciation expense - governmental activities	<u>\$ 187,035</u>

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity for the year ended December 31, 2011, was as follows:

<u>Business-type activities:</u>	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 913,400	\$ -	\$ -	\$ 913,400
Total capital assets, not being depreciated	<u>913,400</u>	<u>-</u>	<u>-</u>	<u>913,400</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	12,514,742	-	-	12,514,742
Furniture and equipment	871,008	7,000	-	878,008
Vehicles	128,510	34,154	-	162,664
Infrastructure	<u>52,535,246</u>	<u>1,305,841</u>	<u>-</u>	<u>53,841,087</u>
Total capital assets, being depreciated	<u>66,049,506</u>	<u>1,346,995</u>	<u>-</u>	<u>67,396,501</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(2,321,473)	(231,163)	-	(2,552,636)
Furniture and equipment	(181,687)	(40,748)	-	(222,435)
Vehicles	(85,984)	(9,402)	-	(95,386)
Infrastructure	<u>(12,060,296)</u>	<u>(1,456,043)</u>	<u>-</u>	<u>(13,516,339)</u>
Total accumulated depreciation	<u>(14,649,440)</u>	<u>(1,737,356)</u>	<u>-</u>	<u>(16,386,796)</u>
Total capital assets, being depreciated, net	<u>51,400,066</u>	<u>(390,361)</u>	<u>-</u>	<u>51,009,705</u>
Business-type activities capital assets, net	<u>\$ 52,313,466</u>	<u>\$ (390,361)</u>	<u>\$ -</u>	<u>\$ 51,923,105</u>

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the enterprise funds as follows:

Business-type activities:

Water	\$	549,764
Sewer		997,111
Stormwater		<u>190,481</u>
Total depreciation expense - business-type activities	\$	<u><u>1,737,356</u></u>

NOTE 10 - LEASE PURCHASE AGREEMENT - LESSEE DISCLOSURE

On July 20, 2011, the City entered into a lease purchase agreement with a financial institution to assist in financing a new truck.

General capital assets acquired by agreement have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception. For the City, a corresponding liability was recorded in the government-wide financial statements. Principal payments in 2011 totaled \$12,259. Principal and interest payments are made from the street construction and maintenance fund (a nonmajor governmental fund) and the state highway fund (a nonmajor governmental fund).

Capital assets consisting of equipment have been capitalized in the amount of \$70,227 in governmental activities. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$3,951, leaving a book value of \$66,276.

The following is a schedule of the future minimum lease payments required under the lease purchase agreement and the present value of the minimum lease payments as of December 31, 2011:

<u>Year Ending</u> <u>December 31,</u>	<u>Truck</u>
2012	\$ 24,519
2013	24,519
2014	<u>12,260</u>
Total minimum lease payments	61,298
Less: amount representing interest	<u>(3,330)</u>
Present value of future minimum lease payments	<u><u>\$ 57,968</u></u>

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2011 and in a prior year, the City entered into capital lease agreements for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$54,941. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$10,172, leaving a current book value of \$44,769. A corresponding liability was recorded in the government-wide financial statements. Principal payments in 2011 totaled \$6,029 paid by the general fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011.

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2012	\$ 13,280
2013	13,280
2014	13,280
2015	8,600
2016	<u>5,216</u>
Total future minimum lease payments	53,656
Less: amount representing interest	<u>(8,151)</u>
Present value of net minimum lease payments	<u>\$ 45,505</u>

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS

A. Governmental Activities

During 2011, the following changes occurred in governmental activities long-term obligations:

Governmental activities:	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/11</u>	<u>Amounts Due in One Year</u>
General obligation bonds							
G.O. special assessment bonds, 1994	7.00%	12/01/2014	\$ 120,000	\$ -	\$ (25,000)	\$ 95,000	\$ 30,000
G.O. bonds, series 2004	4.23%	12/01/2024	1,815,000	-	(125,000)	1,690,000	125,000
Capital appreciation bonds, series 2004	11.03	12/01/2019	65,000	-	-	65,000	-
G.O. various purpose bonds, 2008	3.00-4.50%	12/01/2028	4,750,000	-	(395,000)	4,355,000	405,000
Total general obligations bonds			<u>6,750,000</u>	<u>-</u>	<u>(545,000)</u>	<u>6,205,000</u>	<u>560,000</u>
OPWC loans							
#CC05B - Washington St.	0.00%	7/01/2020	391,166	-	(39,115)	352,051	39,117
#CC02D - North High St.	0.00%	7/01/2023	244,367	-	(18,799)	225,568	18,797
#CC03E - West Waterloo #1	0.00%	1/01/2024	406,111	-	(30,083)	376,028	30,082
#CC04F - West Waterloo #2	0.00%	1/01/2025	736,319	-	(50,780)	685,539	50,781
#CC04K - Columbus St	0.00%	1/01/2029	421,800	-	(22,800)	399,000	22,800
#CC06L - Thrush Drive	0.00%	1/01/2034	230,609	-	(9,813)	220,796	9,813
Total OPWC loans			<u>2,430,372</u>	<u>-</u>	<u>(171,390)</u>	<u>2,258,982</u>	<u>171,390</u>
Other long-term obligations							
Bond anticipation notes	1.63%	5/20/2012	2,000,000	1,700,000	(2,000,000)	1,700,000	1,700,000
Compensated absences	-	-	68,105	51,311	(47,424)	71,992	52,966
Lease purchase agreement	-	-	-	70,227	(12,259)	57,968	11,163
Capital lease agreements	-	-	25,633	25,901	(6,029)	45,505	10,001
Total other long-term obligations			<u>2,093,738</u>	<u>1,847,439</u>	<u>(2,065,712)</u>	<u>1,875,465</u>	<u>1,774,130</u>
Total governmental activities			<u>\$ 11,274,110</u>	<u>\$ 1,847,439</u>	<u>\$ (2,782,102)</u>	<u>10,339,447</u>	<u>\$ 2,505,520</u>
Less: Unamortized discount on bond issuance						<u>(7,818)</u>	
Total on statement of net assets						<u>\$ 10,331,629</u>	

Compensated Absences:

Compensated absences are reported in the statement of net assets and will be paid from the fund from which the employees' salaries are paid which will primarily be the general fund and the street construction and maintenance fund (a nonmajor governmental fund).

Bond Anticipation Notes:

The City issued \$1,700,000 in roadway improvement notes on May 13, 2011. The notes bear an interest rate of 1.625% and matured on May 10, 2012. The notes were issued to retire the bond anticipation notes series 2010 and were for the purpose of constructing, resurfacing, widening and improving Rutherford Drive, Robinett Way and Eichorn Street.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Lease Purchase Agreements:

See Note 10 for detail on the lease purchase agreements.

Capital Lease Agreements:

See Note 11 for detail on the capital lease agreements.

General Obligation Bonds:

On December 1, 1994, the City issued \$370,000 in general obligation special assessment bonds. The bonds bear an annual interest rate of 7.00% and mature on December 1, 2014.

The City issued \$2,549,999 in general obligation bonds during 2004. The bonds bear an annual interest rate of 4.23% and mature on December 1, 2024.

On September 18, 2008, the City issued \$5,790,000 in general obligation various purpose bonds to currently refund the 1993 general obligation bonds, to currently refund notes maturing in 2008, and to advance refund the 1999 general obligation bonds. The refunded debt is considered defeased (in-substance).

The 2008 general obligation various purpose refunding issue is comprised of current interest bonds, par value \$5,790,000, with an annual interest rate ranging from 3.00% - 4.50% and mature on December 1, 2028.

The following is a summary of the City's future annual debt service requirements for the general obligation bonds:

Year Ended December 31,	General Obligation Bonds Payable		
	Principal	Interest	Total
2012	\$ 560,000	\$ 233,831	\$ 793,831
2013	575,000	215,333	790,333
2014	525,000	196,203	721,203
2015	505,000	178,208	683,208
2016	520,000	161,348	681,348
2017 - 2021	1,985,000	792,862	2,777,862
2022 - 2026	1,220,000	212,900	1,432,900
2027 - 2028	315,000	21,375	336,375
Total	<u>\$ 6,205,000</u>	<u>\$ 2,012,060</u>	<u>\$ 8,217,060</u>

OPWC Loans:

Ohio Public Works Commission Loans (OPWC) have been issued for various street improvements. The loans are interest free and principal payments are made from the debt service fund.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the City's future annual debt service principal and interest requirements for the OPWC loans:

Year Ended December 31,	<u>OPWC Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 171,390	\$ -	\$ 171,390
2013	171,390	-	171,390
2014	171,390	-	171,390
2015	171,390	-	171,390
2016	171,390	-	171,390
2017 - 2021	817,830	-	817,830
2022 - 2026	453,601	-	453,601
2027 - 2031	106,065	-	106,065
2032 - 2034	24,536	-	24,536
Total	<u>\$ 2,258,982</u>	<u>\$ -</u>	<u>\$ 2,258,982</u>

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 assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. 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, 2011, the City's total debt margin was \$17,209,642 and the unvoted debt margin was \$12,250,169.

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CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. Business-Type Activities

The table below provides the changes that occurred in the business-type activities long-term obligations during 2011. Certain beginning balances of OPWC loans have been restated to properly reflect the correct loan balances.

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Restated Balance at 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/11</u>	<u>Due in One Year</u>
<u>Revenue bonds</u>							
Sewer mortgage revenue bonds	2.50-4.50%	12/01/2024	\$ 4,335,000	\$ -	\$ (240,000)	\$ 4,095,000	\$ 250,000
Total revenue bonds			<u>4,335,000</u>	<u>-</u>	<u>(240,000)</u>	<u>4,095,000</u>	<u>250,000</u>
<u>OPWC loans</u>							
#CT212 - Hocking St.	0.00%	1/01/2012	6,690	-	(4,460)	2,230	2,230
#CC808 - Columbus & Washington	3.00%	1/01/2016	31,889	-	(5,416)	26,473	5,580
#CC01C - Sanitary sewer rehab	3.00%	1/01/2024	<u>157,816</u>	<u>-</u>	<u>(9,641)</u>	<u>148,175</u>	<u>9,932</u>
Total OPWC loans			<u>196,395</u>	<u>-</u>	<u>(19,517)</u>	<u>176,878</u>	<u>17,742</u>
<u>OWDA loans</u>							
#3081 - Elevated storage tank construction	6.02%	7/01/2014	165,556	-	(44,000)	121,556	46,649
#1502 - Water improvements	8.26%	1/01/2014	585,921	-	(151,641)	434,280	164,166
#4523 - Water treatment plant construction	2.75%	7/01/2027	3,160,974	-	(148,114)	3,012,860	152,216
#4672 - Well field & raw water line	2.75%	7/01/2027	745,337	-	(34,925)	710,412	35,891
#5772 - Wastewater system upgrades	2.12%	7/1/2031	<u>-</u>	<u>1,015,385</u>	<u>-</u>	<u>1,015,385</u>	<u>-</u>
Total OWDA loans			<u>4,657,788</u>	<u>1,015,385</u>	<u>(378,680)</u>	<u>5,294,493</u>	<u>398,922</u>
<u>Other long-term obligations:</u>							
Compensated absences			<u>47,821</u>	<u>56,606</u>	<u>(41,647)</u>	<u>62,780</u>	<u>47,798</u>
Total business-type activities			<u>\$ 9,237,004</u>	<u>\$ 1,071,991</u>	<u>\$ (679,844)</u>	<u>\$ 9,629,151</u>	<u>\$ 714,462</u>

Compensated Absences:

Compensated absences are reported in the statement of net assets and will be paid from the fund from which the employees' salaries are paid which will primarily be the water, sewer and storm water enterprise funds.

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Revenue Bonds:

The City issued \$5,650,000 in sewer mortgage revenue bonds on December 1, 2004 for acquiring, constructing and operating improvements to the sanitary sewer collection and treatment system, due in annual installments of varying amounts, bearing interest at a variable rate ranging from 2.50% to 4.50% through 2024.

The following is a summary of the City's future annual debt service requirements for the revenue bonds:

Year Ended December 31,	Revenue Bonds Payable		
	Principal	Interest	Total
2012	\$ 250,000	\$ 169,890	\$ 419,890
2013	255,000	161,390	416,390
2014	265,000	152,337	417,337
2015	275,000	142,665	417,665
2016	285,000	132,352	417,352
2017 - 2021	1,615,000	477,960	2,092,960
2022 - 2024	1,150,000	105,076	1,255,076
Total	<u>\$ 4,095,000</u>	<u>\$ 1,341,670</u>	<u>\$ 5,436,670</u>

The City has pledged future sewer customer revenues, net of specified operating expenses, to acquire, construct, and make operating improvements to the sanitary sewer collection and treatment system. The sewer revenue bonds are payable solely from sewer customer net revenues and are payable through 2024. Annual principal and interest payments on the bonds are expected to require approximately 100 percent of net revenues. The total principal and interest remaining to be paid on the sewer mortgage revenue bonds is \$5,436,670. Principal and interest paid for the current year and total customer net revenues were \$417,690 and \$853,546, respectively.

OPWC Loans:

OPWC loans have been issued finance waterline construction and sanitary sewer rehabilitation. Principal and interest payments are due in semi-annual installments.

The following is a summary of the City's future annual debt service principal and interest requirements for the OPWC loans:

Year Ended December 31,	OPWC Loans Payable		
	Principal	Interest	Total
2012	\$ 17,742	\$ 5,124	\$ 22,866
2013	15,981	4,655	20,636
2014	16,464	4,172	20,636
2015	16,961	3,675	20,636
2016	14,307	3,162	17,469
2017 - 2021	61,221	10,294	71,515
2022 - 2024	34,202	1,554	35,756
Total	<u>\$ 176,878</u>	<u>\$ 32,636</u>	<u>\$ 209,514</u>

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

OWDA Loans:

The City has entered into debt financing arrangements through the OWDA to fund construction projects. The amounts due to the OWDA are payable solely from sewer and water revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2011, the City has outstanding borrowings of \$5,294,493. The loan agreements require semi-annual payments based on the permissible borrowings rather than the actual amount loaned. These payments are reflected in the future maturities of principal and interest table and are subject to revision if the total amount is not drawn down.

The City has pledged future water and sewer revenues to repay OWDA loans. The loans are payable solely from water and sewer fund revenues and are payable through 2027. OWDA loan #5772 has been excluded from the following calculations. Annual principal and interest payments on the loans are expected to require 39.57 percent of net revenues and 17.84 percent of total revenues. The total principal and interest remaining to be paid on the loans is \$5,262,411. Principal and interest paid for the current year were \$535,834, total net revenues were \$1,354,161 and total revenues were \$3,003,951.

The annual requirements to retire business-type activities debt are as follows. OWDA loan # 5772 – wastewater system upgrades is currently “open” meaning the final disbursements have not yet been made from OWDA; therefore, future debt service requirements have not been finalized and are not included in the schedule of future debt service below.

Fiscal Year Ended <u>December 31,</u>	<u>OWDA Loans Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 398,922	\$ 144,295	\$ 543,217
2013	420,499	122,718	543,217
2014	316,507	99,708	416,215
2015	204,169	85,043	289,212
2016	209,822	79,390	289,212
2017 - 2021	1,139,544	306,519	1,446,063
2022 - 2026	1,306,290	139,773	1,446,063
2027	<u>283,355</u>	<u>5,857</u>	<u>289,212</u>
Total	<u>\$ 4,279,108</u>	<u>\$ 983,303</u>	<u>\$ 5,262,411</u>

NOTE 13 - RISK MANAGEMENT

The City is founding member of the Central Ohio Health Care Consortium (the “Consortium”), a risk-sharing pool, which provides employee health care benefits for all full-time employees who wish to participate in the plan. The pool consists of seven political subdivisions that pool risk for basic hospital, surgical and prescription drug coverage. The City pays monthly contributions to the Consortium, which is used to cover claims and administrative costs, and to purchase excess loss insurance for the plan. The Consortium has entered into an agreement for individual and aggregate excess loss coverage with a commercial insurance carrier.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 14 - PENSION PLANS

Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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 Pension 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 Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$152,525, \$144,231, and \$135,331, respectively; 91.08% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$226 made by the City and \$162 made by the plan members.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

Ohio Public Employees Retirement System

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

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

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$65,941, \$79,819, and \$97,855, respectively; 91.08% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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 the general fund:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ (417,478)
Net adjustment for revenue accruals	235,519
Net adjustment for expenditure accruals	(8,408)
Net adjustment for other sources/uses	25,891
Funds budgeted elsewhere	(5,643)
Adjustment for encumbrances	<u>208,065</u>
GAAP basis	<u>\$ 37,946</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the community center fund.

NOTE 17 - 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 are 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, 2011.

B. Litigation

The City is involved in no material litigation as either plaintiff or defendant.

CITY OF CANAL WINCHESTER, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 18 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 189,159
Grant project	50
Other governmental	<u>5,675</u>
Total	<u>\$ 194,884</u>

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CITY OF CANAL WINCHESTER, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 19 - FUND BALANCE

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

Fund balance	General Fund	Debt Service Fund	Grant Project	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Materials and supplies inventory	\$ 3,871	\$ -	\$ -	\$ 43,252	\$ 47,123
Prepays	<u>23,063</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,063</u>
Total nonspendable	<u>26,934</u>	<u>-</u>	<u>-</u>	<u>43,252</u>	<u>70,186</u>
Restricted:					
General government	-	-	-	212,390	212,390
Capital projects	-	-	26,337	6,347	32,684
Transportation	-	-	-	550,722	550,722
Leisure time activity	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,375</u>	<u>77,375</u>
Total restricted	<u>-</u>	<u>-</u>	<u>26,337</u>	<u>846,834</u>	<u>873,171</u>
Committed:					
Capital projects	72,043	-	-	-	72,043
Leisure time activity	<u>9,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,433</u>
Total committed	<u>81,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,476</u>
Assigned:					
Capital projects	13,839	-	-	-	13,839
Debt service	-	27,956	-	-	27,956
Leisure time activity	579	-	-	-	579
Subsequent year appropriations	82,514	-	-	-	82,514
Other purposes	<u>93,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,265</u>
Total assigned	<u>190,197</u>	<u>27,956</u>	<u>-</u>	<u>-</u>	<u>218,153</u>
Unassigned	<u>2,904,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,904,311</u>
Total fund balances	<u>\$ 3,202,918</u>	<u>\$ 27,956</u>	<u>\$ 26,337</u>	<u>\$ 890,086</u>	<u>\$ 4,147,297</u>

NOTE 20 - SIGNIFICANT SUBSEQUENT EVENTS

- A. On May 10, 2012, the City issued a \$1,700,000 bond anticipation note to retire the \$1,700,000 bond anticipation note issued on May 13, 2011 (See Note 12). This note bears an interest rate of 1.250% and matures on May 9, 2013.
- B. During December of 2012, the Finance Director retired and Amanda Jackson became the new Finance Director.



Julian & Grube, Inc.
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**Independent Accountant's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Required by *Government Auditing Standards***

Members of Council and Mayor
City of Canal Winchester
Franklin County
36 South High Street
Canal Winchester, Ohio 43110-1213

To the Members of Council and Mayor:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canal Winchester, Franklin County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the City of Canal Winchester's basic financial statements and have issued our report thereon dated May 30, 2013. We noted the City of Canal Winchester implemented presenting their financial statements in accordance with generally accepted accounting principles as well as adopted Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Members of Council and Mayor
City of Canal Winchester

Compliance and Other Matters

As part of reasonably assuring whether the City of Canal Winchester's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

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

Julian & Grube, Inc.
May 30, 2013



Dave Yost • Auditor of State

CITY OF CANAL WINCHESTER

FRANKLIN 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
JULY 18, 2013**