



**Auditor of State  
Betty Montgomery**



**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

North Canton City School District  
Stark County  
525 Seventh Street NE  
North Canton, Ohio 44720

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Canton City School District, Stark County, Ohio, as of June 30, 2004, and the respective changes in financial position, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8, certain errors resulted in the overstatement of capital assets. Accordingly, the Governmental Activities were restated as of July 1, 2003 to correct for these errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2005 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 20, 2005

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED**

The discussion and analysis of the North Canton City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District'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 District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$141,084 which represents a 3.82% decrease from 2003.
- General revenues accounted for \$35,794,083 in revenue or 90.14% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,917,105 or 9.86% of total revenues of \$39,711,188.
- The District had \$39,852,272 in expenses related to governmental activities; only \$3,917,105 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$35,794,083 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$34,568,473 in revenues and \$34,341,937 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance increased \$70,531 from (\$1,428,967) to (\$1,359,086).
- The debt service fund had \$1,790,017 in revenues and other financing sources and \$2,152,388 in expenditures. During fiscal 2004, the debt service fund's fund balance decreased \$362,371 from \$1,419,897 to \$1,057,526.

**Using the Basic Financial Statements**

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

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District'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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Reporting the District as a Whole**

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

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

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation of non-instructional services, extracurricular activities, intergovernmental pass-through and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.



**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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***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 22-47 of this report.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2004 and 2003.

	<u>Activities 2004</u>	<u>Activities 2003</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 26,050,869	\$ 24,429,684
Capital assets	<u>23,405,078</u>	<u>23,893,828</u>
Total assets	<u>49,455,947</u>	<u>48,323,512</u>
<b><u>Liabilities</u></b>		
Current liabilities	24,902,967	23,183,244
Long-term liabilities	<u>21,000,923</u>	<u>21,447,127</u>
Total liabilities	<u>45,903,890</u>	<u>44,630,371</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	6,000,283	5,559,033
Restricted	1,325,861	1,805,976
Unrestricted (deficit)	<u>(3,774,087)</u>	<u>(3,671,868)</u>
Total net assets	<u>\$ 3,552,057</u>	<u>\$ 3,693,141</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's assets exceeded liabilities by \$3,552,057. At year-end, restricted net assets were \$1,325,861.

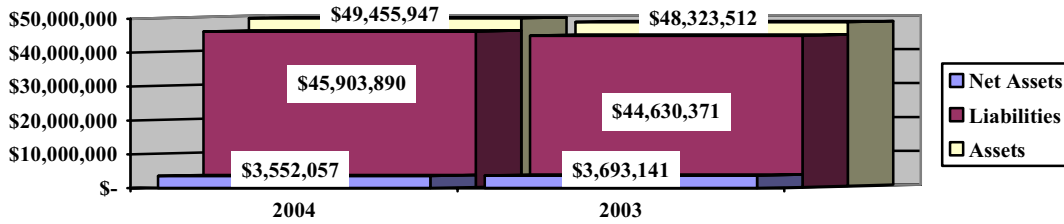
At year-end, capital assets represented 47.33% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$6,000,283. These capital assets are used to provide services to the students and are not available for future spending. Although the District'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 District's net assets, \$1,325,861, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets is a deficit of \$3,774,087.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Governmental Activities**



The table below shows the change in net assets for fiscal years 2004 and 2003.

**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 2,142,512	\$ 2,118,264
Operating grants and contributions	1,774,593	1,493,655
Capital grants and contributions	-	71,935
General revenues:		
Property taxes	19,615,456	20,696,898
Grants and entitlements	15,593,454	14,984,553
Investment earnings	46,714	61,138
Gain on disposal of capital assets	-	122,981
Other	<u>538,459</u>	<u>746,092</u>
Total revenues	<u>\$ 39,711,188</u>	<u>\$ 40,295,516</u>

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

**Change in Net Assets**

	Governmental Activities <u>2004</u>	Governmental Activities <u>2003</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	17,357,959	16,455,592
Special	3,256,731	2,889,962
Vocational	1,379,345	1,441,126
Other	75,161	71,751
Support services:		
Pupil	1,611,403	1,540,873
Instructional staff	2,126,538	2,116,145
Board of education	84,392	31,106
Administration	2,597,526	2,841,518
Fiscal	876,283	907,277
Business	50,895	133,651
Operations and maintenance	4,118,563	3,861,896
Pupil transportation	2,234,370	2,033,763
Central	439,097	335,147
Operations of non-instructional services	53,464	361,957
Food service operations	1,148,596	1,143,008
Extracurricular activities	926,651	1,116,184
Intergovernmental pass through	261,653	203,899
Interest and fiscal charges	<u>1,253,645</u>	<u>1,261,345</u>
Total expenses	<u>39,852,272</u>	<u>38,746,200</u>
Change in net assets	<u>\$ (141,084)</u>	<u>\$ 1,549,316</u>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$141,084. Total governmental expenses of \$39,852,272 were offset by program revenues of \$3,917,105 and general revenues of \$35,794,083. Program revenues supported 9.87% of the total governmental expenses.

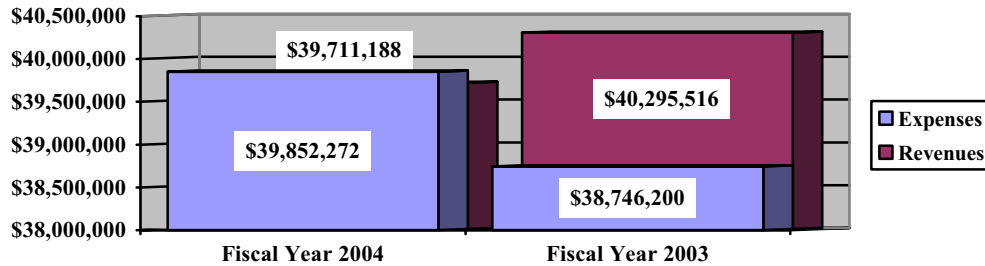
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 88.66% of total governmental revenue. Real estate property is reappraised every six years.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003.

**Governmental Activities - Revenues and Expenses**



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.

**Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004	Total Cost of Services 2003	Net Cost of Services 2003
<b>Program expenses</b>				
Instruction:				
Regular	\$ 17,357,959	\$ 16,695,833	\$ 16,455,592	\$ 15,800,979
Special	3,256,731	2,929,841	2,889,962	2,665,571
Vocational	1,379,345	1,334,393	1,441,126	1,411,010
Other	75,161	45,431	71,751	32,625
Support services:				
Pupil	1,611,403	1,350,966	1,540,873	1,336,863
Instructional staff	2,126,538	1,775,742	2,116,145	1,826,800
Board of education	84,392	84,392	31,106	31,106
Administration	2,597,526	2,246,884	2,841,518	2,430,557
Fiscal	876,283	876,283	907,277	907,277
Business	50,895	50,895	133,651	61,716
Operations and maintenance	4,118,563	4,118,563	3,861,896	3,861,896
Pupil transportation	2,234,370	2,234,370	2,033,763	2,033,763
Central	439,097	396,547	335,147	308,390
Operations of non-instructional services	53,464	34,803	361,957	344,371
Food service operations	1,148,596	(8,580)	1,143,008	29,216
Extracurricular activities	926,651	493,808	1,116,184	747,892
Intergovernmental pass through	261,653	21,351	203,899	(29,031)
Interest and fiscal charges	1,253,645	1,253,645	1,261,345	1,261,345
<b>Total expenses</b>	<u>\$ 39,852,272</u>	<u>\$ 35,935,167</u>	<u>\$ 38,746,200</u>	<u>\$ 35,062,346</u>

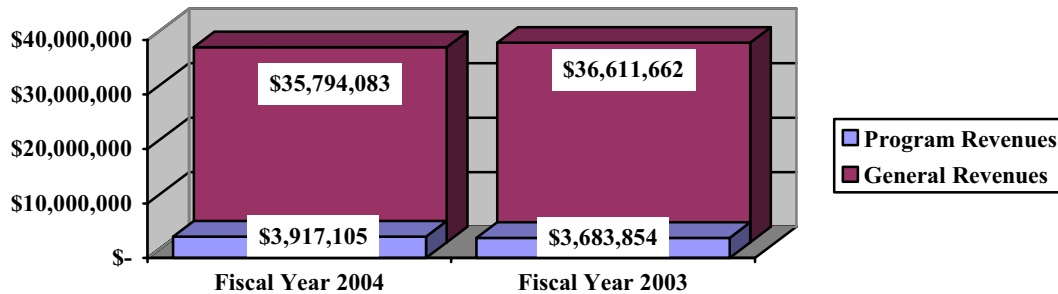
**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

The dependence upon tax and other general revenues for governmental activities is apparent, 95.18% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 90.13%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2004 and 2003.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$784,666, which is lower than last year's total of \$1,026,546. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2004 and 2003.

	Fund Balance <u>June 30, 2004</u>	Fund Balance <u>June 30, 2003</u>	Increase <u>(Decrease)</u>
General	\$ (1,359,086)	\$ (1,428,967)	\$ 69,881
Debt Service	1,057,526	1,419,897	(362,371)
Other Governmental	<u>1,086,226</u>	<u>1,035,616</u>	<u>50,610</u>
Total	<u>\$ 784,666</u>	<u>\$ 1,026,546</u>	<u>\$ (241,880)</u>

**General Fund**

The increase in fund balance can be attributed primarily to an increase in tuition revenue coupled with a decrease of \$113,762 in transfers out to other funds. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

	<u>2004</u>	<u>2003</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 18,149,788	\$ 19,080,227	(4.88) %
Tuition	387,667	368,859	5.10 %
Earnings on investments	43,690	59,335	(26.37) %
Intergovernmental	15,415,156	14,874,615	3.63 %
Other revenues	<u>572,172</u>	<u>771,115</u>	(25.80) %
Total	<u>\$ 34,568,473</u>	<u>\$ 35,154,151</u>	(1.67) %
<b><u>Expenditures</u></b>			
Instruction	\$ 20,362,053	\$ 19,699,168	3.37 %
Support services	12,325,244	12,298,409	0.22 %
Operation of non-instructional services	32,176	317,364	(89.86) %
Extracurricular activities	591,228	748,352	(21.00) %
Facilities acquisition and construction	<u>1,031,236</u>	<u>1,145,635</u>	(9.99) %
Total	<u>\$ 34,341,937</u>	<u>\$ 34,208,928</u>	0.39 %

***Debt Service Fund***

The debt service fund had \$1,790,017 in revenues and other financing sources and \$2,152,388 in expenditures. During fiscal 2004, the debt service fund's fund balance decreased \$362,371 from \$1,419,897 to \$1,057,526. The decrease in fund balance can be attributed to debt retirement which is detailed in Note 9 to the basic financial statements.

***General Fund Budgeting Highlights***

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2004, the District amended its general fund budget numerous times. For the general fund, original and final budgeted revenues and other financing sources were \$34,509,652. Actual revenues and other financing sources for fiscal 2004 was \$34,876,489. This represents a \$366,837 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$35,381,761 were increased to \$35,552,561 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$34,938,908, which was \$613,653 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2004, the District had \$23,405,078 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. The 2003 capital asset balances have been restated (see Note 3.A. to the basic financial statements). This entire amount is reported in governmental activities. The following table shows fiscal 2004 balances compared to 2003:

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2004	Restated 2003
Land	\$ 1,785,562	\$ 1,785,562
Land improvements	835,157	874,429
Building and improvements	19,595,490	19,908,558
Furniture and equipment	368,274	478,548
Vehicles	820,595	846,731
Total	\$ 23,405,078	\$ 23,893,828

Total additions to capital assets for 2004 were \$602,625. The District recorded \$1,091,375 in depreciation expense for fiscal 2004.

Refer to Note 8 in the basic financial statements for further detail on the District's capital assets.

***Debt Administration***

At June 30, 2004, the District had \$19,036,993 in general obligation bonds and energy conservation bonds outstanding. Of this total, \$1,270,000 is due within one year and \$17,766,993 is due within greater than one year. The following table summarizes the bonds outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2004	Governmental Activities 2003
General obligation bonds	\$ 18,776,993	\$ 19,378,194
Energy conservation bonds	260,000	510,000
Total	\$ 19,036,993	\$ 19,888,194

At June 30, 2004, the District's voted debt margin was \$40,078,898 with an unvoted debt margin of \$645,093.

See Note 9 to the basic financial statements for further detail on the District's debt administration.

**Current Financial Related Activities**

The District has continued to maintain the highest standards of service to our students, parents and community. The District is always presented with challenges and opportunities. National events economically continue to affect the District and the surrounding area. The District is still reviewing and analyzing the impact this has on its personal property tax base and collections.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The District's financial outlook is beginning to change. During this time, the Board of Education and administration will continue to closely monitor its revenues and expenditures to ensure they are in accordance with its financial forecast. Overall, the District continues to perform at the highest level determined by the State of Ohio, which is measured by a defined set of proficiency criteria. Our most recent state report card shows the district students achieving a perfect 22 out of 22 and an "Excellent" rating for the 4th straight year.

The District has communicated to the community that they rely upon their support for the major part of its operations, and will continue to work diligently to plan expenses, staying carefully within the District's five-year financial plan. State law limits the growth of income generated by local levies rendering revenue relatively constant. This lack of revenue growth forces the District to come back to the voters from time to time and ask for additional financial support. The last time the District requested taxpayers to approve a local levy was in November of 2001.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed additional revenue growth toward the support of School Districts with little property tax wealth. In May of 2000, the Ohio Supreme Court again ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not "equitable" or "adequate." The Court directed the Governor and the legislature to address the fundamental issues creating the inequities. In September 2001, the Ohio Supreme Court issued an opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order. The State of Ohio, in a motion filed September 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that change be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. On December 11, 2002, the Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional. At this time the District is unable to determine what effect, if any, this decision will have on its State funding and its financial operations.

In addition to the uncertainty of State funding, the Amended Substitute House Bill 95 (HB95), effective June 26, 2003, authorized the phase-out of the \$10,000 exemption reimbursement of Personal Tangible values. This reduction, coupled with an Inventory Assessment Rate phase-out and the current down-turn in the economy, will cause our revenues in the area of Tangible Personal Property Taxes to begin to decrease on an annual basis as opposed to annual increases.

As a result, all of the District's financial abilities will be called upon to meet the challenges the future will bring. It is imperative the District's Board of Education and administration continue to carefully and prudently plan in order to provide the resources required to meet the student's desired needs over the next several years.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Todd Tolson, Treasurer, North Canton City School District, 525 7<sup>th</sup> Street NE, North Canton, Ohio 44720.



**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2004

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . .	\$ 5,029,449
Receivables:	
Taxes . . . . .	20,801,022
Accounts . . . . .	4,900
Intergovernmental . . . . .	153,889
Materials and supplies inventory . . . . .	61,609
Capital assets:	
Land . . . . .	1,785,562
Depreciable capital assets, net . . . . .	21,619,516
Capital assets, net . . . . .	23,405,078
 Total assets. . . . .	 49,455,947
 <b>Liabilities:</b>	
Accounts payable. . . . .	153,491
Contracts payable. . . . .	158,890
Accrued wages and benefits . . . . .	4,007,269
Pension obligation payable. . . . .	890,450
Intergovernmental payable . . . . .	438,827
Deferred revenue . . . . .	19,179,602
Accrued interest payable . . . . .	74,438
Long-term liabilities:	
Due within one year. . . . .	1,734,766
Due within more than one year . . . . .	19,266,157
 Total liabilities . . . . .	 45,903,890
 <b>Net Assets:</b>	
Invested in capital assets, net of related debt. . . . .	6,000,283
Restricted for:	
Capital projects . . . . .	121,525
Debt service. . . . .	1,002,588
Other purposes . . . . .	201,748
Unrestricted (deficit) . . . . .	(3,774,087)
 Total net assets . . . . .	 \$ 3,552,057

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

		<b>Program Revenues</b>		<b>Net (Expense) Revenue and Changes in Net Assets</b>
	<b>Expenses</b>	<b>Charges for Services and Sales</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 17,357,959	\$ 516,292	\$ 145,834	\$ (16,695,833)
Special . . . . .	3,256,731	-	326,890	(2,929,841)
Vocational . . . . .	1,379,345	-	44,952	(1,334,393)
Other . . . . .	75,161	29,730	-	(45,431)
Support services:				
Pupil . . . . .	1,611,403	-	260,437	(1,350,966)
Instructional staff . . . . .	2,126,538	5,259	345,537	(1,775,742)
Board of education . . . . .	84,392	-	-	(84,392)
Administration . . . . .	2,597,526	210,661	139,981	(2,246,884)
Fiscal . . . . .	876,283	-	-	(876,283)
Business . . . . .	50,895	-	-	(50,895)
Operations and maintenance . . . . .	4,118,563	-	-	(4,118,563)
Pupil transportation . . . . .	2,234,370	-	-	(2,234,370)
Central . . . . .	439,097	-	42,550	(396,547)
Operation of non-instructional services . . . . .	53,464	-	18,661	(34,803)
Extracurricular activities . . . . .	926,651	432,843	-	(493,808)
Intergovernmental . . . . .	261,653	-	240,302	(21,351)
Food service operations . . . . .	1,148,596	947,727	209,449	8,580
Interest and fiscal charges . . . . .	1,253,645	-	-	(1,253,645)
Total governmental activities . . . . .	<u>\$ 39,852,272</u>	<u>\$ 2,142,512</u>	<u>\$ 1,774,593</u>	<u>(35,935,167)</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				18,157,703
Debt service . . . . .				1,457,753
Grants and entitlements not restricted				
to specific programs . . . . .				15,593,454
Investment earnings . . . . .				46,714
Miscellaneous . . . . .				538,459
Total general revenues . . . . .				<u>35,794,083</u>
Change in net assets . . . . .				(141,084)
Net assets at beginning of year (restated) . . . . .				<u>3,693,141</u>
Net assets at end of year . . . . .				<u>\$ 3,552,057</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 2,673,740	\$ 941,316	\$ 1,272,396	\$ 4,887,452
Receivables:				
Taxes . . . . .	18,881,371	1,919,651	-	20,801,022
Accounts . . . . .	4,900	-	-	4,900
Intergovernmental . . . . .	-	-	153,889	153,889
Interfund loans . . . . .	1,162	-	-	1,162
Materials and supplies inventory . . . . .	48,756	-	12,853	61,609
Restricted assets:				
Equity in pooled cash and cash equivalents . . . . .	141,997	-	-	141,997
<b>Total assets . . . . .</b>	<b>\$ 21,751,926</b>	<b>\$ 2,860,967</b>	<b>\$ 1,439,138</b>	<b>\$ 26,052,031</b>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 129,404	\$ -	\$ 24,087	\$ 153,491
Contracts payable . . . . .	158,890	-	-	158,890
Accrued wages and benefits . . . . .	3,756,591	-	250,678	4,007,269
Interfund loans payable . . . . .	-	-	1,162	1,162
Compensated absences payable . . . . .	225,504	-	-	225,504
Pension obligation payable . . . . .	534,506	-	15,422	549,928
Intergovernmental payable . . . . .	412,206	-	26,621	438,827
Retirement incentive payable . . . . .	180,000	-	-	180,000
Deferred revenue . . . . .	17,713,911	1,803,441	34,942	19,552,294
<b>Total liabilities . . . . .</b>	<b>23,111,012</b>	<b>1,803,441</b>	<b>352,912</b>	<b>25,267,365</b>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	419,320	-	225,719	645,039
Reserved for materials and supplies inventory . . . . .	48,756	-	12,853	61,609
Reserved for property tax unavailable for appropriation . . . . .	1,167,460	116,210	-	1,283,670
Reserved for debt service . . . . .	-	941,316	-	941,316
Reserved for budget stabilization . . . . .	141,997	-	-	141,997
Unreserved, undesignated (deficit), reported in:				
General fund . . . . .	(3,136,619)	-	-	(3,136,619)
Special revenue funds . . . . .	-	-	726,129	726,129
Capital projects funds . . . . .	-	-	121,525	121,525
<b>Total fund balances . . . . .</b>	<b>(1,359,086)</b>	<b>1,057,526</b>	<b>1,086,226</b>	<b>784,666</b>
<b>Total liabilities and fund balances . . . . .</b>	<b>\$ 21,751,926</b>	<b>\$ 2,860,967</b>	<b>\$ 1,439,138</b>	<b>\$ 26,052,031</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

<b>Total governmental fund balances</b>		\$	784,666
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			23,405,078
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	337,750	
Intergovernmental revenue		<u>34,942</u>	
Total			372,692
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		18,776,993	
Compensated absences		1,558,426	
Energy conservation bonds		260,000	
Pension obligation payable		340,522	
Accrued interest payable		<u>74,438</u>	
Total			<u>(21,010,379)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>3,552,057</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 18,149,788	\$ 1,455,714	\$ -	\$ 19,605,502
Tuition . . . . .	387,667	-	-	387,667
Earnings on investments . . . . .	43,690	-	3,024	46,714
Charges for services . . . . .	-	-	947,727	947,727
Classroom materials and fees . . . . .	34,791	-	279,986	314,777
Extracurricular . . . . .	5,736	-	393,078	398,814
Other local revenues . . . . .	531,645	-	100,341	631,986
Intergovernmental - Intermediate . . . . .	-	-	49,481	49,481
Intergovernmental - State . . . . .	15,415,156	178,298	442,946	16,036,400
Intergovernmental - Federal . . . . .	-	-	1,252,741	1,252,741
Total revenue . . . . .	<u>34,568,473</u>	<u>1,634,012</u>	<u>3,469,324</u>	<u>39,671,809</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	16,184,609	-	250,986	16,435,595
Special . . . . .	2,818,625	-	365,608	3,184,233
Vocational . . . . .	1,315,094	-	47,718	1,362,812
Adult . . . . .	7,571	-	-	7,571
Other . . . . .	36,154	-	31,495	67,649
Support Services:				
Pupil . . . . .	1,311,174	-	255,927	1,567,101
Instructional staff . . . . .	1,746,796	-	345,564	2,092,360
Board of education . . . . .	48,150	-	-	48,150
Administration . . . . .	2,281,899	-	330,289	2,612,188
Fiscal . . . . .	829,873	40,623	-	870,496
Business . . . . .	50,895	-	-	50,895
Operations and maintenance . . . . .	3,500,470	-	-	3,500,470
Pupil transportation . . . . .	2,167,828	-	-	2,167,828
Central . . . . .	388,159	-	47,572	435,731
Operation of non-instructional services . . . . .	32,176	-	18,916	51,092
Food service operations . . . . .	-	-	1,137,592	1,137,592
Extracurricular activities . . . . .	591,228	-	327,303	918,531
Facilities acquisition and construction . . . . .	1,031,236	-	-	1,031,236
Intergovernmental pass through . . . . .	-	-	261,653	261,653
Debt service:				
Principal retirement . . . . .	-	1,180,000	-	1,180,000
Interest and fiscal charges . . . . .	-	931,765	-	931,765
Total expenditures . . . . .	<u>34,341,937</u>	<u>2,152,388</u>	<u>3,420,623</u>	<u>39,914,948</u>
Excess of revenues over (under) expenditures . . . . .	<u>226,536</u>	<u>(518,376)</u>	<u>48,701</u>	<u>(243,139)</u>
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	-	156,005	-	156,005
Transfers (out) . . . . .	(156,005)	-	-	(156,005)
Total other financing sources (uses) . . . . .	<u>(156,005)</u>	<u>156,005</u>	<u>-</u>	<u>-</u>
Net change in fund balances . . . . .	70,531	(362,371)	48,701	(243,139)
<b>Fund balances at beginning of year . . . . .</b>	<b>(1,428,967)</b>	<b>1,419,897</b>	<b>1,035,616</b>	<b>1,026,546</b>
<b>Increase (decrease) in reserve for inventory . . . . .</b>	<b>(650)</b>	<b>-</b>	<b>1,909</b>	<b>1,259</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ (1,359,086)</b>	<b>\$ 1,057,526</b>	<b>\$ 1,086,226</b>	<b>\$ 784,666</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (243,139)</b>
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
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 depreciation expense (\$1,091,375) exceeds capital outlays (\$602,625) in the current period.	(488,750)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	39,379
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	1,180,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(321,880)
Governmental funds report expenditures for inventory when purchased, however, in the statement of activities, they are reported as expenses when consumed.	1,259
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(307,953)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ (141,084)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 18,241,432	\$ 18,241,432	\$ 18,435,338	\$ 193,906
Tuition . . . . .	385,302	385,302	389,398	4,096
Earnings on investments. . . . .	43,230	43,230	43,690	460
Extracurricular. . . . .	5,676	5,676	5,736	60
Classroom materials and fees . . . . .	34,425	34,425	34,791	366
Other local revenues. . . . .	546,570	546,570	552,380	5,810
Intergovernmental - State . . . . .	15,253,017	15,253,017	15,415,156	162,139
Total revenue . . . . .	<u>34,509,652</u>	<u>34,509,652</u>	<u>34,876,489</u>	<u>366,837</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	16,336,800	16,415,663	16,132,322	283,341
Special. . . . .	2,877,231	2,891,120	2,841,218	49,902
Vocational. . . . .	1,332,058	1,338,488	1,315,385	23,103
Adult/Continuing . . . . .	7,667	7,704	7,571	133
Other . . . . .	36,376	36,552	35,921	631
Support Services:				
Pupil. . . . .	1,363,241	1,369,821	1,346,178	23,643
Instructional staff . . . . .	1,793,503	1,802,161	1,771,055	31,106
Board of education . . . . .	28,349	28,486	27,994	492
Administration. . . . .	2,377,293	2,388,769	2,347,538	41,231
Fiscal . . . . .	832,298	836,316	821,881	14,435
Business . . . . .	52,331	52,584	51,676	908
Operations and maintenance. . . . .	3,636,152	3,653,705	3,590,640	63,065
Pupil transportation . . . . .	2,197,577	2,208,185	2,170,071	38,114
Central. . . . .	409,015	410,990	403,896	7,094
Operation of non-instructional services . . . . .	68,181	68,511	67,328	1,183
Extracurricular activities. . . . .	629,258	632,296	621,382	10,914
Facilities acquisition and construction. . . . .	1,244,414	1,250,421	1,228,838	21,583
Total expenditures . . . . .	<u>35,221,744</u>	<u>35,391,772</u>	<u>34,780,894</u>	<u>610,878</u>
Excess of revenues over (under) expenditures. . . . .	<u>(712,092)</u>	<u>(882,120)</u>	<u>95,595</u>	<u>977,715</u>
<b>Other financing uses:</b>				
Refund of prior year receipts . . . . .	(857)	(861)	(846)	15
Transfers out . . . . .	(157,982)	(158,745)	(156,005)	2,740
Advances out . . . . .	(1,178)	(1,183)	(1,163)	20
Total other financing uses . . . . .	<u>(160,017)</u>	<u>(160,789)</u>	<u>(158,014)</u>	<u>2,775</u>
Net change in fund balance . . . . .	(872,109)	(1,042,909)	(62,419)	980,490
<b>Fund balance at beginning of year . . . . .</b>	1,557,342	1,557,342	1,557,342	-
<b>Prior year encumbrances appropriated . . . . .</b>	705,141	705,141	705,141	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,390,374</u>	<u>\$ 1,219,574</u>	<u>\$ 2,200,064</u>	<u>\$ 980,490</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 341,167	\$ 141,875
Accounts receivable. . . . .	-	12
	341,167	141,887
Total assets . . . . .	341,167	\$ 141,887
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 307
Intergovernmental payable . . . . .	-	16,219
Due to students . . . . .	-	125,361
	-	141,887
Total liabilities . . . . .	-	\$ 141,887
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	341,167	
Total net assets . . . . .	\$ 341,167	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 4,787
Gifts and contributions. . . . .	253,045
	257,832
Total additions. . . . .	257,832
<b>Deductions:</b>	
Scholarships awarded . . . . .	6,901
	250,931
Change in net assets . . . . .	250,931
Net assets at beginning of year. . . . .	90,236
	341,167
Net assets at end of year . . . . .	\$ 341,167

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The North Canton City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District is the 73<sup>rd</sup> largest in the State of Ohio (among 613 public school districts) in terms of enrollment. It is staffed by 250 non-certificated employees and 355 certificated full-time teaching personnel, who provide services to 4,698 students and other community members. The Board controls the District's eight school buildings, a bus garage, a warehouse, and an administration building.

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

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The following organizations are described due to their relationship to the District:

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

*PUBLIC ENTITY RISK POOLS*

**Shared Risk Pool**

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the council. All council revenues are generated from charges for services received from the participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

**Insurance Purchasing Pool**

Stark County Schools Council of Governments Workers' Compensation Group Rating Plan

The Stark County Schools Council of Governments Workers' Compensation Group Rating Plan has created a group insurance pool for the purpose of creating a group rating plan for workers' compensation. The governing body is comprised of the superintendents and the members who have been appointed by the respective governing body of each member.

The intent of the pool is to achieve a reduced rate for the District and the other group members. The injury claim history of all participating members is used to calculate a common rate for the group. An annual fee is paid to Comp Management, Inc. to administer the group and to manage any injury claims. Premium savings created by the group are prorated to each member entity annually based on its payroll percent of the group.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal, interest and related costs.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for food service and uniform school supplies operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities and deposits held for outside entities.

**C. Basis of Presentation and Measurement Focus**

*Government-wide Financial Statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal 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 fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

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, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the object level within each function for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased tax rates). By no later than January 20, the Board-adopted budget is filed with Stark County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts from the certificate of amended resources that was in effect at the time the final appropriations were passed by the Board of Education.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the object level within each function for the general fund and at the fund level for all other funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budget amounts reflect the first appropriation for that fund covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations:

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 appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**F. Cash and Investments**

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

During fiscal year 2004, investments were limited to a repurchase agreement. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$43,690, which includes \$22,363 assigned from other District funds.

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



**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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

**G. Inventory**

On government-wide and fund 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 which means that the costs of inventory items are recorded as expenditure in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

**H. Capital Assets**

General capital assets are those assets specifically related to governmental activities. These assets 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.

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 District decreased its capitalization threshold from \$10,000 to \$5,000 for its general capital assets during fiscal 2004. The District does not possess any infrastructure. 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 capitalized.

All reported capital assets except land are depreciated. 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>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 30 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the statement of net assets.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**J. Compensated Absences**

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District 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". A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees with fifteen (15) years of service at any age were included.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, debt service, budget stabilization and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**N. Estimates**

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

**O. Restricted Assets**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute to be set-aside for budget stabilization. See Note 16 for additional information regarding set-asides.

**P. Interfund Activity**

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds are eliminated in the statement of activities.

**Q. Nonpublic Schools**

Within the District boundaries, St. Paul School is operated through the Youngstown Catholic Diocese. Current state legislation provides funding to this parochial school. The monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The activity of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

**R. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Restatement of Net Assets**

The beginning net assets of the governmental activities have been restated due to a change in the capitalization threshold, a reappraisal of capital assets, and errors and omission reported in previous years. The adjustment for capital assets had the following effect on net assets as previously reported:

	Governmental Activities
Net assets, June 30, 2003	\$ 9,302,187
Adjustment for capital assets	<u>(5,609,046)</u>
Restated net assets, June 30, 2003	<u>\$ 3,693,141</u>

**B. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

	Deficit
General	\$ 1,200,196
<u>Nonmajor Governmental Funds</u>	
Ohio Reads	71
Summer Intervention	12,341
Title VI-B	5,714
Preschool Grant	261
Classroom Reduction	12,988

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

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

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the District into three categories.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District 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 the Board of Education has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, 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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not the exceed 25% of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt instrument rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

*Deposits:* At fiscal year-end, the carrying amount of the District's deposits was \$2,312,491 and the bank balance was \$2,770,278. Both of these amounts include \$61,226 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$2,570,382 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

*Investments:* The District's investments are categorized below to give an indication of the level of custodial credit risk assumed by the entity at fiscal year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the District's name.

	Category 3	Reported Amount	Fair Value
Repurchase agreement	<u>\$ 3,200,000</u>	<u>\$ 3,200,000</u>	<u>\$ 3,200,000</u>

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

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

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 5,512,491	\$ -
Investments of the cash management pool:		
Repurchase agreement	<u>(3,200,000)</u>	<u>3,200,000</u>
GASB Statement No. 3	<u>\$ 2,312,491</u>	<u>\$ 3,200,000</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund balances at June 30, 2004 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1,162

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2004 are reported on the statement of net assets.

- B.** Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Debt Service Fund	<u>\$ 156,005</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer to the debt service fund is to provide resources for the repayment of long-term debt principal and interest.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 6 - PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. 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 alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Stark County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available as an advance at June 30, 2004 was \$1,167,460 in the general fund and \$116,210 in the debt service fund. The amount that was available as advance at June 30, 2003 was \$1,453,010 in the general fund and \$131,960 in the debt service fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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 has been deferred.



**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 6 - PROPERTY TAXES - (Continued)**

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second Half Collections		2004 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and ther real estate	\$ 515,669,810	88.87	\$ 578,399,500	89.66
Public utility personal	420	0.00	15,437,490	2.39
Tangible personal property	<u>64,586,472</u>	<u>11.13</u>	<u>51,255,951</u>	<u>7.95</u>
Total	<u>\$ 580,256,702</u>	<u>100.00</u>	<u>\$ 645,092,941</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$62.80		\$62.80	
Debt Service	2.70		3.00	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities</b>	
Taxes	\$ 20,801,022
Accounts	4,900
Intergovernmental	<u>153,889</u>
Total	<u>\$ 20,959,811</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 8 - CAPITAL ASSETS**

- A. The capital asset balances of the government activities have been restated due to a reappraisal of capital assets, a change in the capitalization threshold and errors and omissions reported in previous years (See Note 3.A. for detail).

	Balance <u>June 30, 2003</u>	<u>Adjustments</u>	Restated Balance <u>July 1, 2003</u>
<b>Governmental Activities</b>			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 1,785,562	\$ -	\$ 1,785,562
Total capital assets, not being depreciated	<u>1,785,562</u>	<u>-</u>	<u>1,785,562</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	2,140,978	30,270	2,171,248
Buildings and improvement	41,198,186	(7,422,294)	33,775,892
Furniture and equipment	865,729	1,056,338	1,922,067
Vehicles	2,039,271	567,035	2,606,306
Total capital assets, being depreciated	<u>46,244,164</u>	<u>(5,768,651)</u>	<u>40,475,513</u>
<i>Less: accumulated depreciation</i>	<u>(18,526,852)</u>	<u>159,605</u>	<u>(18,367,247)</u>
Governmental activities capital assets, net	<u>\$ 29,502,874</u>	<u>\$ (5,609,046)</u>	<u>\$ 23,893,828</u>

- B. Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
<b>Governmental Activities</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,785,562	\$ -	\$ -	\$ 1,785,562
Total capital assets, not being depreciated	<u>1,785,562</u>	<u>-</u>	<u>-</u>	<u>1,785,562</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,171,248	40,420	-	2,211,668
Buildings and improvements	33,775,892	377,469	-	34,153,361
Furniture and equipment	1,922,067	9,236	-	1,931,303
Vehicles	2,606,306	175,500	-	2,781,806
Total capital assets, being depreciated	<u>40,475,513</u>	<u>602,625</u>	<u>-</u>	<u>41,078,138</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,296,819)	(79,692)	-	(1,376,511)
Buildings and improvements	(13,867,334)	(690,537)	-	(14,557,871)
Furniture and equipment	(1,443,519)	(119,510)	-	(1,563,029)
Vehicles	(1,759,575)	(201,636)	-	(1,961,211)
Total accumulated depreciation	<u>(18,367,247)</u>	<u>(1,091,375)</u>	<u>-</u>	<u>(19,458,622)</u>
Governmental activities capital assets, net	<u>\$ 23,893,828</u>	<u>\$ (488,750)</u>	<u>\$ -</u>	<u>\$ 23,405,078</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>		
Regular		\$ 769,306
Special		3,403
Vocational		5,392
<u>Support Services:</u>		
Pupil		5,092
Instructional staff		5,138
Board of education		34,854
Administration		29,439
Fiscal		3,474
Operations and maintenance		2,582
Pupil Transportation		211,747
Extracurricular activities		16,296
Food service operations		<u>4,652</u>
Total depreciation expense		<u>\$1,091,375</u>

**NOTE 9 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Balance July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2004</u>	<u>Amount Due in One Year</u>
<u>G.O. Bonds Payable</u>								
High school improvements	1994	2019	4.25-5.00%	\$ 19,378,194	\$ 328,799	\$ (930,000)	\$ 18,776,993	\$ 1,010,000
Energy conservations	1994	2005	5.71%	<u>510,000</u>	<u>-</u>	<u>(250,000)</u>	<u>260,000</u>	<u>260,000</u>
Total G.O. bonds				<u>19,888,194</u>	<u>328,799</u>	<u>(1,180,000)</u>	<u>19,036,993</u>	<u>1,270,000</u>
<u>Other Long-Term Obligations</u>								
Compensated absences				1,396,433	693,363	(305,866)	1,783,930	284,766
Retirement incentive payable				<u>162,500</u>	<u>180,000</u>	<u>(162,500)</u>	<u>180,000</u>	<u>180,000</u>
Total other long-term obligations				<u>1,558,933</u>	<u>873,363</u>	<u>(468,366)</u>	<u>1,963,930</u>	<u>464,766</u>
Total governmental activities				<u>\$ 21,447,127</u>	<u>\$ 1,202,162</u>	<u>\$ (1,648,366)</u>	<u>\$ 21,000,923</u>	<u>\$ 1,734,766</u>

Compensated absences and the retirement incentive will be paid from the fund from which the employee is paid.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

- A. On October 1, 1994, the District issued general obligation bonds in the principal amount of \$22,953,000 for the purpose of improving Hoover High School (North Campus) to provide a one-site high school for the District, as well as converting the existing Hoover High School (South Campus) to a middle school and improving the Clearmount, Greentown, Northwood, and Orchard Hill Elementary Schools. It also included the Portage Building and Mary L. Evans Kindergarten Center. The District levied a tax outside of the 10-mill limitation imposed by state statutes to pay the debt charges on the bonds and any anticipatory securities.

On March 1, 1998, the District issued general obligation bonds to refund a portion of the 1994 Series issue. This issue is comprised of both current interest bonds, par value \$15,960,000, and capital appreciation bonds, par value \$4,830,000. The interest rates on the current interest bonds range from 4.25% to 5.00%. The capital appreciation bonds mature on December 1, 2007 (effective interest 18.00%), December 1, 2008 (effective interest 18.00%) and December 1, 2009 (effective interest 18.00%) and December 1, 2010 (effective interest 18.05%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets was \$714,795. A total of \$1,372,198 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2004.

These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issues is December 1, 2019.

The following is a schedule of activity for the general obligation bonds:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2004</u>
Current interest bonds -				
1994 Series	\$ 2,980,000	\$ -	\$ (650,000)	\$ 2,330,000
Current interest bonds -				
1998 Series	14,640,000	-	(280,000)	14,360,000
Capital appreciation bonds -				
1998 Series	<u>1,758,194</u>	<u>328,799</u>	<u>-</u>	<u>2,086,993</u>
Total	<u>\$ 19,378,194</u>	<u>\$ 328,799</u>	<u>\$ (930,000)</u>	<u>\$ 18,776,993</u>

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,010,000	\$ 831,746	\$ 1,841,746	\$ -	\$ -	\$ -
2006	1,090,000	762,142	1,852,142	-	-	-
2007	1,150,000	702,743	1,852,743	-	-	-
2008	-	672,000	672,000	1,210,000	-	1,210,000
2009	-	672,000	672,000	1,205,000	-	1,205,000
2010 - 2014	2,490,000	3,112,750	5,602,750	2,415,000	-	2,415,000
2015 - 2019	2,700,000	2,130,000	4,830,000	-	-	-
2020	8,250,000	206,250	8,456,250	-	-	-
Total	<u>\$ 16,690,000</u>	<u>\$ 9,089,631</u>	<u>\$ 25,779,631</u>	<u>\$ 4,830,000</u>	<u>\$ -</u>	<u>\$ 4,830,000</u>

- B.** On April 19, 1997, the District issued energy conservation bonds for the purpose of upgrading buildings owned by the District to reduce energy consumption. The bonds were issued at 5.71% for 7 years with semi-annual payments due in June and December. The bonds will be retired from a debt service fund.

The following is a summary of the future annual debt service requirements to maturity for the energy conservation bonds:

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$ 260,000	\$ 7,280	\$ 267,280
Total	<u>\$ 260,000</u>	<u>\$ 7,280</u>	<u>\$ 267,280</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2004 are a voted debt margin of \$40,078,898 (including available funds of \$1,057,526) and an unvoted debt margin of \$645,093.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 10 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components is derived from negotiated agreements and state laws. Classified employees earn ten to thirty days of vacation per fiscal year, depending upon the length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 300 days for all personnel. Upon completion of ten or more years of service to the District, state, or other political subdivision, and retirement from the profession, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 60 days for certified employees and 62 days for classified employees. In addition, upon retirement, \$10 is paid for each day of sick leave accumulated above 200 days, up to a maximum of \$1,000.

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

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

<u>Type of Coverage</u>	<u>Amount of Coverage</u>	<u>Deductible</u>
Buildings and Contents		
Replacement Cost	\$78,601,730	\$5,000
Inland Marine Coverage	-	100
Automobile Liability	2,000,000	250
Uninsured Motorists	1,000,000	500
General Liability:		
Per occurrence	500,000	500
Aggregate	1,000,000	500

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

**B. Group Health and Dental Insurance**

The District participates in the Stark County Schools Council of Governments Health Benefit Plan, a shared risk pool (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The District's Board of Education pays 95% of medical and 100% of dental monthly premiums.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 11 - RISK MANAGEMENT - (Continued)**

Claims are paid for all participants regardless of claims flow. Upon termination, all district claims would be paid without regard to the District's account balance or the Directors have the right to hold monies for an exiting school district subsequent to the settlement of all expenses and claims.

**C. Workers' Compensation**

The District participates in the Stark county Schools Council of Governments Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP.

Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performances are compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "Equity Pooling Fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

**NOTE 12 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$655,842, \$629,243, and \$765,349, respectively; 43.97% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$367,488, represents the unpaid contribution for fiscal year 2004.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,485,783, \$2,380,506, and \$2,841,539, respectively; 82.80% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$427,432, represents the unpaid contribution for fiscal year 2004. Contributions to the DC and Combined Plans for fiscal year 2004 were \$5,175 made by the District and \$40,918 made by plan members.



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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. As of June 30, 2004, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$177,556 during fiscal 2004.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$337,475 during the 2004 fiscal year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts 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);
- (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 a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (62,419)
Net adjustment for revenue accruals	(308,016)
Net adjustment for expenditure accruals	(17,826)
Net adjustment for other sources/uses	2,009
Adjustment for encumbrances	615,673
GAAP basis	\$ 229,421

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local 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 District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**NORTH CANTON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 15 – CONTINGENCIES – (Continued)**

**B. Litigation**

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

**C. State School Funding Decision**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...”. The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

**NOTE 16 - STATUTORY RESERVES**

The Districts is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In addition, the District set-aside certain BWC refunds that are restricted in use by state statute for budget stabilization.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks/instructional materials, capital acquisition and budget stabilization. Disclosure of this information is required by state statute.

	<u>Instructional Materials</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2003	\$ (435,002)	\$ -	\$ 141,997
Current year set-aside requirement	681,452	681,452	-
Qualifying disbursements	<u>(478,346)</u>	<u>(1,547,742)</u>	<u>-</u>
Total	<u>\$ (231,896)</u>	<u>\$ (866,290)</u>	<u>\$ 141,997</u>
Balance carried forward to FY 2005	<u>\$ (231,896)</u>	<u>\$ -</u>	<u>\$ 141,997</u>

The District had offsets and qualifying disbursements during the year that reduced the textbooks/instructional materials set-aside amount below zero; this extra amount is being carried forward to reduce the set-aside requirements of future years.

Although the District had offsets and qualifying disbursements during the year that reduced the set-aside amount below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
(Continued)

**NOTE 16 - STATUTORY RESERVES - (Continued)**

A schedule of the restricted assets at June 30, 2004 follows:

Amount restricted for budget stabilization	<u>\$ 141,997</u>
Total restricted assets	<u>\$ 141,997</u>

NORTH CANTON CITY SCHOOL DISTRICT

STARK COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster: Food Distribution Program	N/A	10.550		\$48,971		\$48,971
National School Lunch Program	LL-P4-2004	10.555	\$134,134		\$134,134	
<b>Total U.S. Department of Agriculture</b>			<b>134,134</b>	<b>48,971</b>	<b>134,134</b>	<b>48,971</b>
<b><u>S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster: Special Education Grants to States (IDEA Part B)	6B-SF-2004 6B-SF-2003	84.027	532,174		499,349 75,296	
Total Special Education Grants to States			532,174		574,645	
Special Education Preschool Grants	PG-S1-2004 PG-S1-2003	84.173	26,989		28,443 305	
Total Special Education Preschool Grants			26,989		28,748	
<b>Total Special Education Cluster</b>			<b>559,163</b>		<b>603,393</b>	
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2004 C1-S1-2003	84.010	208,290		221,784 81,966	
<b>Total Grants to Local Educational Agencies</b>			<b>208,290</b>		<b>303,750</b>	
Innovative Educational Program Strategies (ESEA Title VI)	C2-S1-2004 C2-S1-2003	84.298	24,001		27,469 801	
<b>Total Innovative Educational Program Strategies</b>			<b>24,001</b>		<b>28,270</b>	
Education Technology State Grants (Title II-D)	TJ-S1-2004 TJ-S1-2003	84.318	3,510		3,688 510	
<b>Total Education Technology State Grants</b>			<b>3,510</b>		<b>4,198</b>	
English Language Acquisition Grants (Title III)	T3-S1-2004	84.365			73	
Improving Teacher Quality State Grants (Title II A)	TR-S1-2004	84.367	110,236		105,598	
Drug-Free Schools Grant	DR-S1-2004	84.186	12,865		11,283	
<i>Passed Through Plain Local School District - Fiscal Agent of Compact:</i>						
Vocational Education - Basic Grants to State	CP-111-502-093	84.048	37,410		42,479	
<b>Total U.S. Department of Education</b>			<b>955,475</b>		<b>1,099,044</b>	
<b>Totals</b>			<b>\$1,089,609</b>	<b>\$48,971</b>	<b>\$1,233,178</b>	<b>\$48,971</b>

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the District's federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – FOOD DISTRIBUTION**

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had no significant food commodities.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

North Canton City School District  
Stark County  
525 Seventh Street NE  
North Canton, Ohio 44720

To the Board of Education:

We have audited the basic financial statements of the governmental activities, each major fund and the remaining fund information of the North Canton City School District, Stark County, Ohio, (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated January 20, 2005, in which the Governmental Activities were restated due to certain capital asset errors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated January 20, 2005.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 20, 2005.

101 Central Plaza South / 700 Bank One Tower / Canton, OH 44702  
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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

North Canton City School District  
Stark County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

January 20, 2005





## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

North Canton City School District  
Stark County  
525 Seventh Street NE  
North Canton, Ohio 44720

To the Board of Education:

#### Compliance

We have audited the compliance of the North Canton City School District, Stark County, Ohio, (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

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

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



**Betty Montgomery**  
Auditor of State

January 20, 2005

**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Title I, CFDA #84.010 Special Education Cluster – CFDA #84.027 and #84.173
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**NORTH CANTON CITY SCHOOL DISTRICT  
STARK COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 24, 2005**